

DATE: Tuesday, March 08, 2016
TO: House Taxation Committee
FROM: Kansas County Appraisers' Association
SUBJECT: House Bill 2714

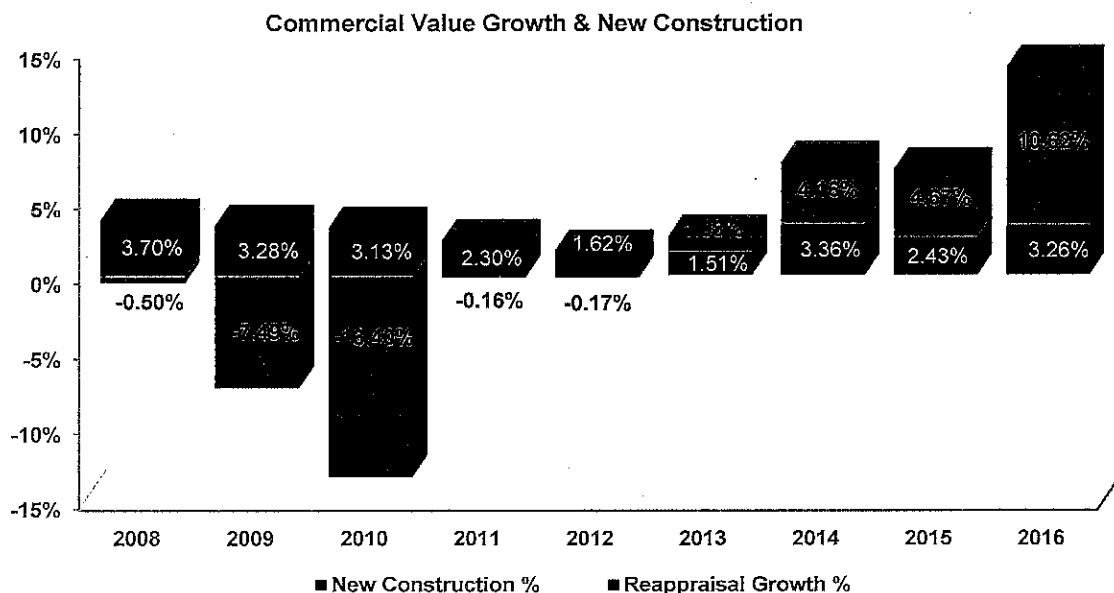
New Section 1. Biennial revaluation

It's our understanding this applies to all properties. We believe this only addresses one statute change, when it would effect approximately 45 statues that would need to be amended. Including but not limited to:

1. Agricultural valuation being annual?
2. State Assessed Valuation changes?
3. Oil & Gas?
4. What about the annual ratio study conducted by Property Valuation Division.
5. What about personal property mobile home values?
6. Will they be able to appeal or pup in the even year? Will it have to reflect base year valuation?
7. RV and Tag and Tax, 16M and 20 M.
8. What about change of ownership in watercraft and the proration?
9. When can classification changes occur?
10. How will natural disasters, fire, and other losses be handled in the off year?
11. How will Tax Increment Financing be handled in the biennial process?

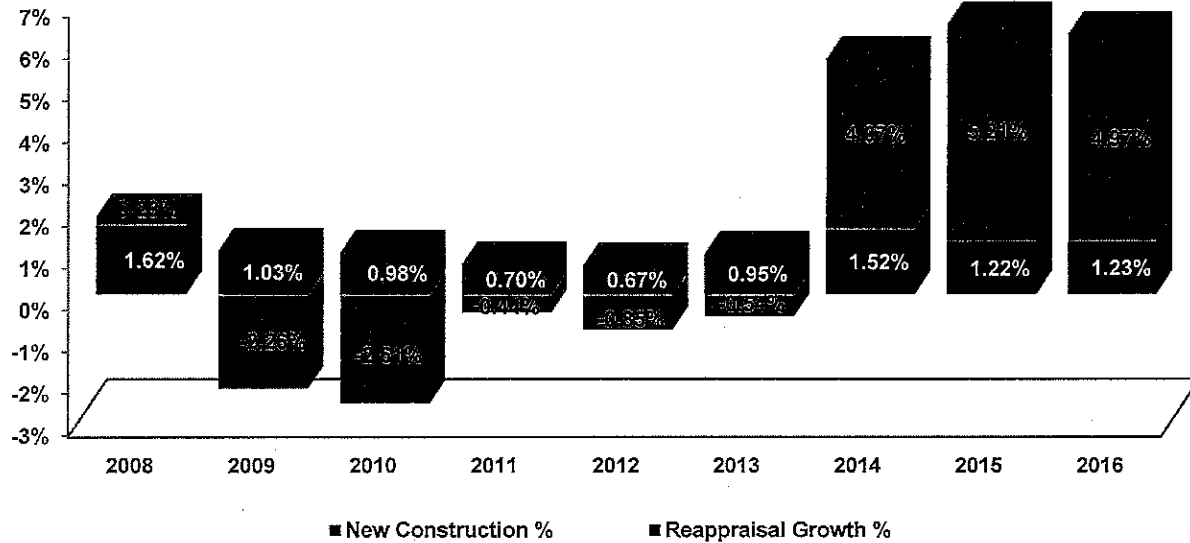
The KCAA is opposed to a biennial revaluation as it leads to "sticker shock" if the market changes. With an annual revaluation, it is more fair and equitable.

- As shown in the chart below, from 2009 to 2010 the Johnson County Appraiser reduced commercial values by 13.4%. If 2009 was the base year of the revaluation, the county appraiser could not have lowered the value during the downturn of the market. Property owners would have paid a higher value than the market showed for 2010.



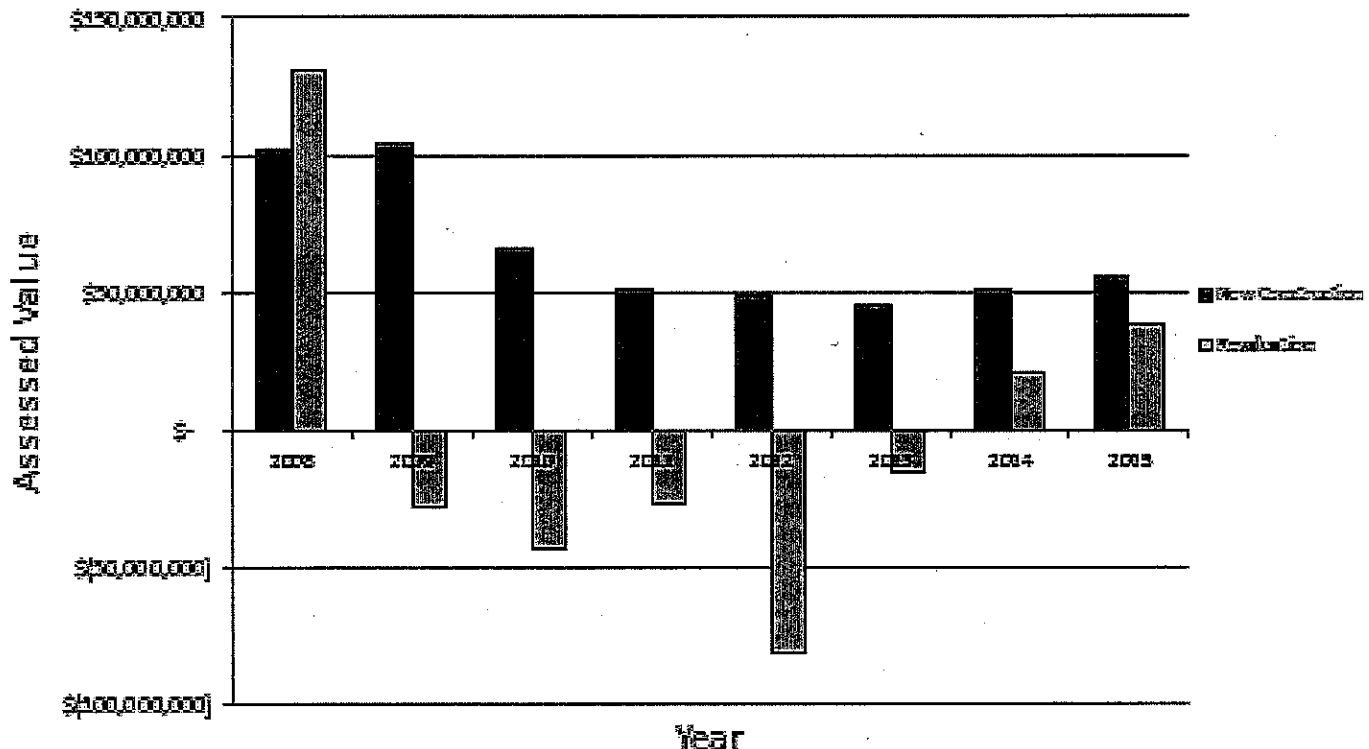
- Residential property owners would see significant increases in a two year valuation, if the market is in an upward trend during the two-year cycle. As shown in the chart below, from 2013 to 2014 there was a 4% increase, but from 2013 to 2015, there was close to a 10% increase in market value. This would be felt much more significantly in a biannual reappraisal valuation.

Residential Value Growth & New Construction



Sedgwick County Appraisal graph reflects similar instances.

New Construction and Revaluation Results



Page 2 line 32 BOTA orders

It is unclear if the county files to the Court of Appeals and the property owner files to District court. Which court has the jurisdiction?

Page 5 Line 42 to Page 6 line 1

If it is required to have a fee appraisal at BOTA, we believe an argument could be made it is unconstitutional since they are being treated differently. Assumptions and capitalization rates established by the county may not be used in the fee appraisal. There is a substantial cost to the county for fee appraisals at this level. The methodology adopted by mass appraisal and fee appraisal must be the same.

Page 7 line 9 through 15

PVD does not have list of recognized methodologies for all property types? This may have substantial cost impact to the state.

Page 7 line 23 through 27

It is the property owner that is filing for enter into a court process with a fee structure. Why does the county get charged when the action is being brought by the property owner? If the county refuses to pay this filing fee, what happens? According to Sedgwick County this provision would cost them approximately \$50,000 annually. Johnson County fee structure cost the county \$160,000 plus. What about Public Utility properties and they file to court with a possibility of those companies in multiple counties, does each county have to pay for this fee?

Page 8 line 28 and 29

With the Board of Tax Appeals functioning correctly, do we need to have District Court trial? The cost to the county per trial could be anywhere from \$15,000 to \$30,000 depending on the complexity of the trial.

Page 9 line 5 through 7

Change in the property? We believe this hurts the taxpayer.

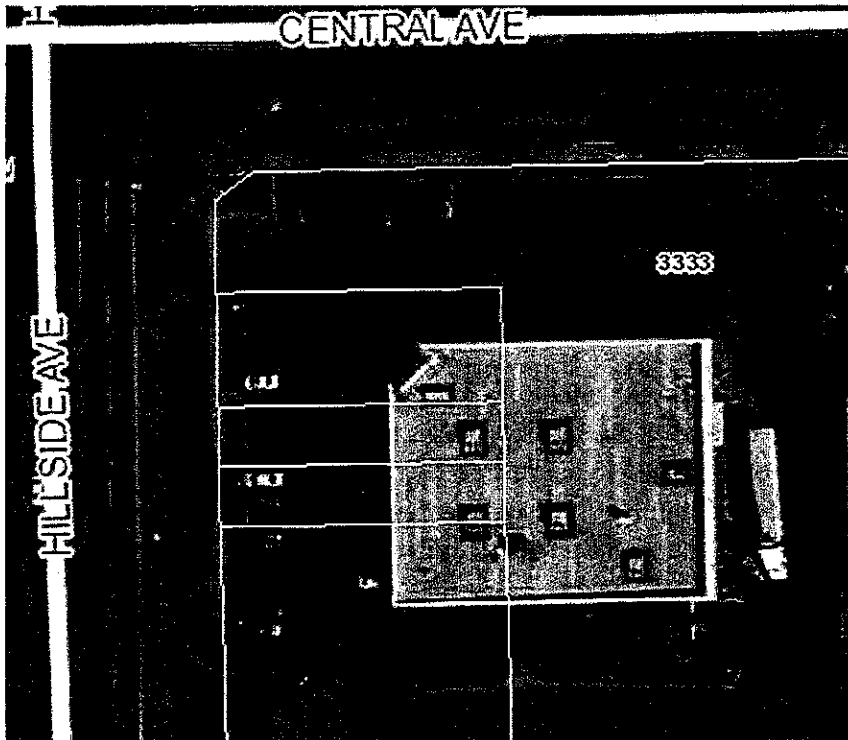
Real property when the tenant notifies the owner they have an intent to leave the property on Jan 2. We could not take it into consideration? It states with the property and there is another bill for post valuation data is being considered HB 2701 for oil and gas. There seems to be a conflict with this statement. The counties believe this would have a negative impact for the property owner. I believe recently county commissioners can consider post valuation data, due to natural disaster, how will this be addressed?

Page 9 line 36

Real property valued individually. Most property owners want the county to consider the property as one economic unit and the values then would be distributed to the various parcels. If this is the case many properties would be valued using the cost approach. This would cause a higher value for multiple parcels for an office, retail, warehouse, multiple parcels or other property types. We could not consider a subdivision with multiple owners considered in the valuation process.

Page 10 line 8 through 10

Most property owners want to have the economic unit considered and not an individually appraised value? We would then have to rely on the cost approach to value. Many apartments and commercial properties is an economic unit and the value would be allocated to the individual parcels. The subdivision analysis could not be used for vacant lots if this is passed. Please see photo below of multiple parcels for one owner



Page 11 Line 12

The county appraiser uses the mass appraisal section within USPAP Standard 6. We are not capable to performing a fee appraisal on 250,000 parcels annually or biennial. This would be cost prohibitive.

Tie with mass appraisal, from section 3.

Page 11 line 25 through 28

This provision of the statute has been in existence since reappraisal. If this provision is removed, the question is what is the written product produced from the ORION valuation system?

Page 12 line 28 through 39

Is the real purpose of the informal meeting is to be sure we have the property characteristics correct. We are to arrive a market value and the income approach to value. We would be required to establish an effective rent for the spaces and not the contractual rent that would appear on the certified rent roll. Also, the expenses is very important document for the county to have to be sure we have the accurate expenses applied to the property or data set. With architectural plans, the county can be sure records are accurate and have proper improvement characteristics. Being sure the county has accurate characteristics, the agency can sure we have the best cost estimates. A Fee appraisal that was conducted the prior 12 months and appraisals for mortgage companies usually have a market estimate of the property. They usually have a valuation estimate of market value. Would it not be best for the county appraiser to have the best data for the valuation process?

If there is an issue with confidentiality there are provisions in place to protect the information.

Page 13 line 5 through 11

What does this mean about a written narrative prior to the informal hearing? This would be impossible for the county appraiser to perform. The reason for the informal hearing is to discuss the revaluation. Johnson County on the website the income approach and sales comparison approach (for residential) is on the website. The cost approach will be available by March 15 according to our vendor. With over 6,000 appeals per year in Johnson County, this would be an impossible task.

Each county has limited resources, however some counties are now making available on the websites; Property Record Card, income, sales comparison, and cost approach. A potential remedy is to put the valuation method on the Notice of Appraisal Value.

Page 13 line 14 through 17

Above the line expense – An expense that is recorded “above” the net operating income line in a reconstructed operating statement typically developed for valuation purposes and therefore is considered part of the total operating expenses for the property. (Appraisal Institute 14th, 475)

Below-the-line-expense – An expense that is recorded “below” the net operating income line in a reconstructed operating statement and therefore is not considered part of the total stabilized operating expenses for the property. Tenant improvements and leasing concessions are the most common line items recorded below the net operating income line for analytical purposes. (Appraisal Institute 14th, 475)

I have asked a fee appraiser for over 30 years and the re-tenant reserves and tenant improvements depreciation is not allowed according to the Appraisal Institute or IAAO literature for the valuation of real estate using the direct capitalization report. This is not taught by any IAAO course. I believe this is coming from the CCIM material with a discounted cash flow. We have only one exceptions that a county would use the DCF, land fill properties.

Page 13 line 24 through 29

According to the courts, agricultural use valuation is based on the use of the property not a contract. We have many properties with an agricultural use lease but they had built a new improvement on it. Does this mean it gets Ag use classification and valuation? Now the property has a 30% classification. With the biennial valuation process, does the non-valuation year hold the original classification and now the improvements are added to the original classification? This needs to address in the bill about reclassification in the non-valuation year? This property has a lease but the county appraiser removed the agricultural use classification. With this provision it would be considered Ag use classification and appraisal.



Page 14 line 17 through 19

PVD has very little methodologies for property types? This would be a substantial undertaking for the PVD.

Page 16 line 30 through 33

Does residential property get agricultural use valuation for their grass yards?

Page 16 line 38-Page 17 line 2 through 8

Leave stricken. Need to address gardens, weeds, flowers, etc.... Is grass considered a plant, if so would they get AG. Does this apply to commercial buildings as well?

Page 17 line 41 through 43 and page 18 line 3; PUP hearings

What does this mean about a written narrative prior to the PUP hearing? This would be impossible for the county appraiser to perform. The reason for the informal hearing is to discuss the revaluation. Johnson County on the website the income approach and sales comparison approach (for residential) is on the website. The cost approach will be available by March 15 according to our vendor. With over 6,000 appeals per year in Johnson County, this would be an impossible task.

Each county has limited resources, however some counties are now making available on the websites; Property Record Card, income, sales comparison, and cost approach. A potential remedy is to put the valuation method on the Notice of Appraisal Value.

Page 19 Line 30 to 38

Above the line expense – An expense that is recorded “above” the net operating income line in a reconstructed operating statement typically developed for valuation purposes and therefore is considered part of the total operating expenses for the property. (Appraisal Institute 14th, 475)

Below-the-line-expense – An expense that is recorded “below” the net operating income line in a reconstructed operating statement and therefore is not considered part of the total stabilized operating expenses for the property. Tenant improvements and leasing concessions are the most common line items recorded below the net operating income line for analytical purposes. (Appraisal Institute 14th, 475)

I have asked a fee appraiser for over 30 years and the re-tenant reserves and tenant improvements depreciation is not allowed according to the Appraisal Institute or IAAO literature for the valuation of real estate using the direct capitalization report. This is not taught by any IAAO course. I believe this is coming from the CCIM material with a discounted cash flow. We have only one exceptions that a county would use the DCF, land fill properties.

