

This written testimony was submitted on March 18, 2024 to Taxation@house.ks.gov.

I am submitting testimony **in opposition** of HCR-5025 to amend to amend section 1 of article 11 of the constitution of the state of Kansas; relating to property taxation; valuing residential real property based on the average fair market value of the prior 10 calendar years.

I am also submitting testimony **in opposition** of HCR-1611 to amend to amend section 1 of article 11 of the constitution of the state of Kansas; relating to property taxation; limiting valuation increases for real property.

Nobody likes property taxes, including the recent increases. The current property tax system in Kansas is one that is equitable — ranked as one of the fairest and most efficient in the U.S.¹ An annual revaluation of property that is based on market value is how everyone is able to pay their fair share each year. These proposed bills erode fairness under the guise of lowering property taxes.

Budgets for Local Taxing Entities Establish the Tax Bill — Not the Appraised/Assessed Value

- Kansas uses a budget-based tax system.
- The property tax formula is:

$$\frac{\text{(Budgeted Expenses – Revenue From Sales Tax and Other Fees)}}{\text{Assessed Value}}$$

- The mill levy reconciles the tax base (total assessed property value) and the budget to determine the appropriate tax rate.
- Consider the following illustration:

Example 1 – Tax Year 1 (base year) premise

Example 2 – Tax Year 2 assessed values decrease by 10%

	Example 1	Example 2
Budget	\$1,000,000	\$1,000,000
Assessed Value	\$10,000,000	\$9,000,000
Indicated Mill Levy	100.00	111.11

If the budget stays the same and values go down by 10%, then the mill levy required to support the jurisdiction’s budget increases by 11%.

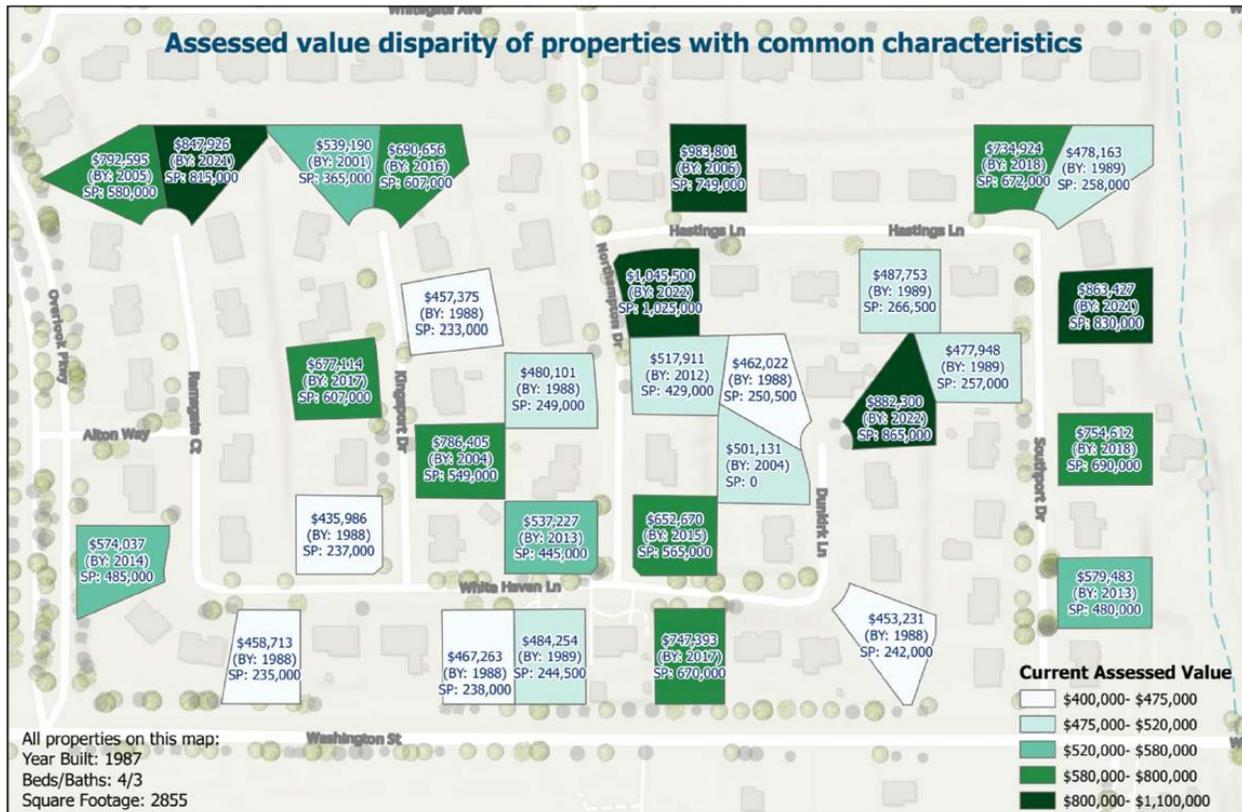
¹ The Best (and Worst) of International Property Tax Administration, Council On State Taxation, June 2019 <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/cost-2023-admin-scorecard---final-draft-combined.pdf>

- Hypothetically, all the values could be cut in half, but that doesn't change the budget needs of the county, city, police, fire and schools.

Consequences of Making these Changes

- The cost of implementing such a system is high.
 - I work on the enhancement committee for the appraisal software used in all 105 counties across Kansas.
 - I estimate it will cost well over \$1 million to modify the computer system to adapt to this law change.
 - Maintaining and administering a capped value system requires more staff
 - I recently hired an appraisal manager who worked in Florida for the past 10 years.
 - His previous office in Florida typically employed 100 to 105 people. He estimated that 40% of their staff directly worked on value cap-related tasks (taking applications, reviewing calculations, customer service, etc.).
 - There were so many unique scenarios that a lot of work had to be calculated outside of the computer system.
 - The public did not understand the value cap. Appraisal staff spent significant time from a customer service standpoint answering the publics' questions.
 - Public feedback was that the value cap was unfair and resulted in inequities among owners of similar property.
 - The cost of implementation of the 10-year value changes to the software and the additional staff needed to administer the value cap will be passed on to the taxpayer.
- The inequities compound over time. The end result is people with similar houses in the same subdivision paying drastically different property taxes. See the illustration on the next page.

- This is similar to Prop 13 in California that applies value caps. In a capped value system, there are winners and losers. The following Value Disparity Map was obtained from the Riverside County, California Assessor’s Office and illustrates what happens with property values over time in a capped value system. These homes are similar in age and size.



- Equity is lost. Explainability is lost. The tax burden is shifted to new homeowners/builders and new construction. Not everyone pays their fair share.

Summary

These bills are bad for Kansans and will be expensive to implement. Please avoid paying millions to implement a system that creates confusion and inequities among taxpayers.

I am available if you have any questions on this topic. Thank you for your time and consideration of an appraiser’s perspective on this matter.

Respectfully,

Brad Eldridge, MAI, CAE

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