Kansas Action for Children

March 17, 2025

Nathan Kessler, Tax Policy Advisor
Kansas Action for Children
Neutral Written-only Testimony for HCR 5011
Senate Committee on Assessment and Taxation

Chairwoman Tyson and members of the Committee:

Thank you for the opportunity to provide testimony on HCR 5011, which would amend Article 1 Section 11 of the *Kansas Constitution*, if agreed to by a majority of voters, to require taxable valuations be based on the lesser of the fair market value or a rolling average of fair market value.

The need for property tax relief for Kansas residents is clear, but what is also clear is the need to address the volatility in property valuations. This bill would attempt to do the latter, which is in many ways the greater challenge. This change to the *Kansas Constitution* could add a level of stability and predictability to individual, local, and state budgets without severing property valuations from market forces.

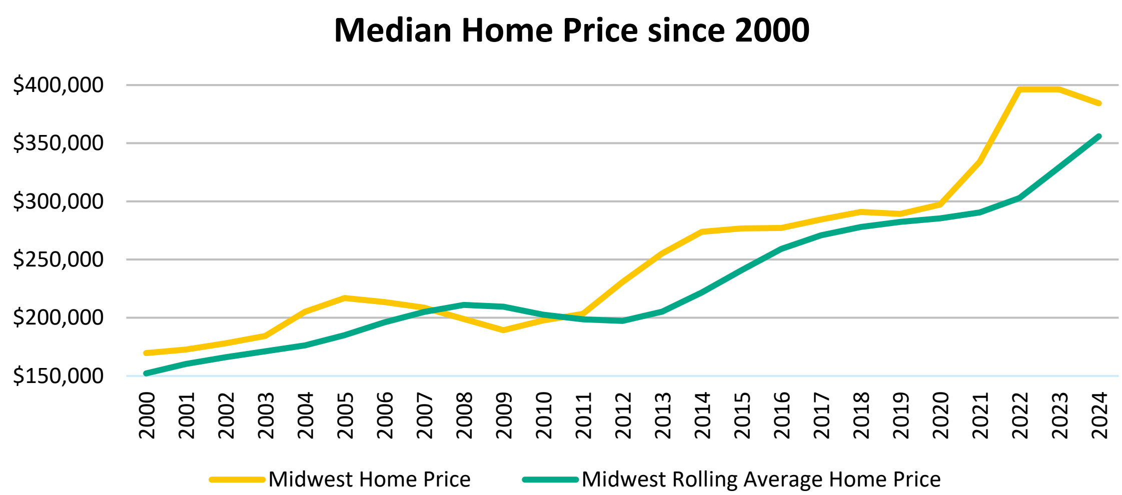
We have seen wild swings in property values over the past 20 years. From the depths of the Great Recession to the heights of the post-pandemic housing boom, the housing market has experienced turbulent times. Despite this turbulence, the real estate market generally experiences increasing property values over time. The fair market value at any one time may be prone to fluctuations in the short term, but in the long term, the data shows steady increases. By changing the system to incorporate a rolling average, taxable valuations would be more bound to this underlying increase.

Such a system could provide taxpayers and governments with an added layer of stability, which is desired when setting budgets and planning for the future. Furthermore, this change would allow time for all parties to make necessary adjustments in the event of a short-term crash or spike in property values, as this impact would take time to work through the valuation and taxation systems. This lag prevents the need for a knee-jerk reaction to a short-term problem.

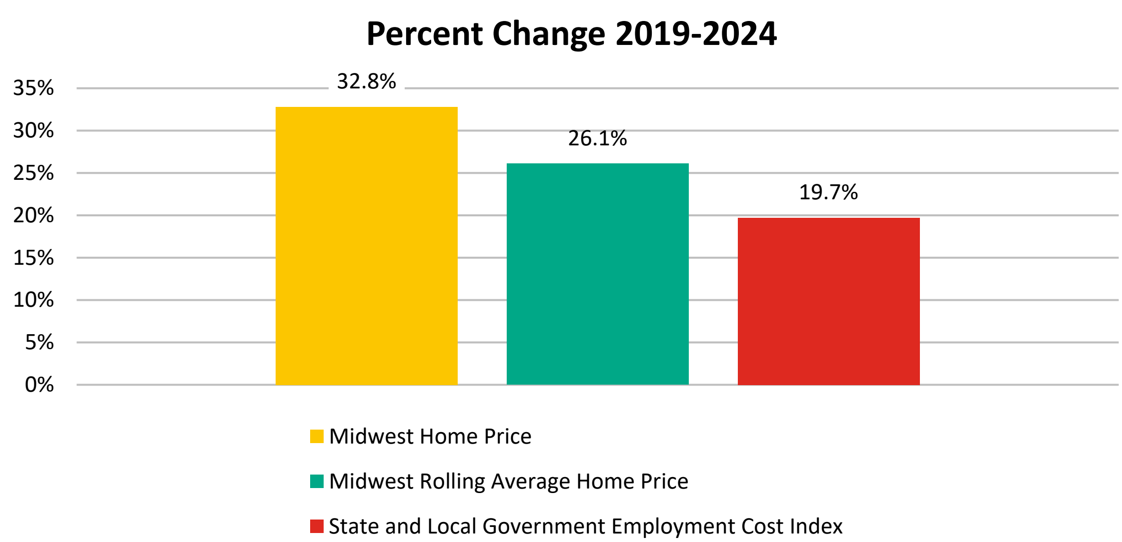
With that said, there are some considerations we urge the Committee give special attention to. The primary concern with the proposed constitutional amendment is that it gives the Legislature authority to determine the rolling average timespan in statute. This is problematic because it leaves the valuation basis subject to change arbitrarily and frequently. What is to prevent, for example, the 2028 Legislature from deciding on a 20-year rolling average because they desire to capture the lows of the Great Recession?

Given this concern, we recommend amending HCR 5011 to establish the number of years on which the average value will be calculated. Specifically, we suggest a four-year average as this would smooth out valuations while keeping them closely tied to their fair market value.

Using data from the U.S. Census Bureau's Survey of Construction, we compared the median sale price of a new home using fair market value and a four-year rolling average. As expected, this resulted in a lower median value in all years excluding 2008-2010 when market values experienced a steep decline.[1]



Because a four-year average closely tracks the fair market value, state and local governments costs should remain covered despite the lower taxable values of the property in their taxing jurisdictions. By incorporating data from the U.S. Bureau of Labor Statistics' Employment Cost Index, we can compare growth in total compensation costs for state and local governments with home values under the status quo and the proposed four-year rolling average.



[1] U.S. Census Bureau and U.S. Department of Housing and Urban Development. (2024). *Survey of Construction.*

The result is a significant reduction in the growth in home values while still covering the increase in employment costs for state and local governments.[2] It should be noted that this employment cost refers only to the cost of the employees themselves, meaning the additional cushion provided by the four-year average would be important for covering additional expenses like equipment, utilities, and other operating costs.

There are several ways state governments can reduce the property taxes paid by residents to local taxing authorities, but most are distortionary or infringe on local control. This measure would be most similar to an assessment limit but would not be nearly as problematic because taxable values remain tethered to the housing market.

The Tax Foundation says that assessment limits "create their own set of problems, locking people into their homes, taxing similarly situated homeowners at dramatically different rates, and introducing a raft of other inequities and inefficiencies into property taxation."[3] These problems are largely mitigated through the approach proposed by HCR 5011.

Just because it does not present the same set of problems doesn't mean that it can't present its own set of problems. To prevent unforeseen issues with this new system – primarily the issue of competing priorities from one legislative session to another – the Committee should strongly consider amending HCR 5011 to specify that the taxable value be based on a four-year rolling average of fair market value before moving it out of committee.

Please contact me at nathan@kac.org if I can be of further assistance.

About Kansas Action for Children

Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families.

[2] Bureau of Labor Statistics Employment Cost Index. (n.d.). *Current Dollar Index, 2004-2024.*

[3] Walczak, J. (April 23, 2018). *Property tax limitation regimes: A Primer*. Tax Foundation. https://taxfoundation.org/research/all/state/property-tax-limitation-regimes-primer/