

April 1, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2342 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2342 is respectfully submitted to your committee.

HB 2342 would require that beginning in tax year 2022, if the total taxable real property valuation in any municipality exceeds the aggregate baseline value of all taxable real property due to an increase in the assessed valuation, then the governing body would be required to lower the mill levy rate to a rate that would generate the same amount of property taxes levied in the previous year. The baseline value for a piece of taxable property would be the appraised value as of January 1, 2012. The baseline value for a piece of property that is not on the tax rolls as of January 1, 2012 would be determined on the date the property initially appears on the tax rolls. The bill would also require that improvements to a property be valued at the adjusted baseline value of comparable properties. The bill defines municipality as any county, township, city, municipal university, school district, community college, drainage district, and any other taxing district or political subdivision which levies taxes on property. Municipalities that adopt a resolution to increase expenditures above the current level of property tax revenue would be required to publish the resolution in the official county newspaper.

The adjustments proposed in this bill would not apply to the uniform statewide mill levy to support school districts, the Educational Building Fund, the State Institutions Building Fund, or any other property tax levy which was previously approved by the voters of a taxing subdivision. County and district appraisers would be required to supervise the listing and appraisal of all real estate in the county subject to taxation except state-appraised property as of January 1, 2012 and then every ten years thereafter. Current law requires county and district appraisers to supervise the listing and appraisal of all real estate in the county on an annual basis.

The bill separates the valuation of public utility real property from the valuation of public utility personal property and would require the Director of Property Valuation to appraise the value of public utility property for any year in which a county or district appraiser is required to appraise the value of that property. The bill would allow a taxpayer, in years when the mailing of a valuation notice is not required, to appeal the classification or appraisal of their property on or before April 1. The bill would take effect on January 1, 2012.

The Department of Revenue indicates that it is unable to estimate the fiscal effect of HB 2342. The bill would institute a major change in the way that real property is valued in Kansas. Improvements to real property would be valued on the average per square foot value of like-zoned properties within a prescribed radius. Some properties may see higher valuation while others may see lower valuation under this bill. Without data on this new valuation method, the Department is unable to estimate the fiscal effect on state or local property tax collections.

The Court of Tax Appeals (COTA) estimates that the bill would require a total of \$1,790,000 in additional expenditures in FY 2012, including \$1.4 million from the State General Fund and \$390,000 from its Filing Fee Fund, for the salaries and wages and operational expenses to handle the anticipated increase in appeals in both the small claims and regular divisions of COTA. The agency indicates it would be required to hire a minimum of 20.00 new FTE positions, including two new judges, three legal staff, and 15 clerical staff to handle the additional workload. The agency's expenditure estimate also includes \$250,000 in one-time moving expenses and an additional \$100,000 in rent for new office space that would adequately accommodate all of its employees.

To formulate this estimate, COTA reviewed historic data on the number of cases that are decided each year. On average, COTA decides about 11,000 cases each year, and approximately half are valuation appeals. COTA indicates that following the reappraisal process in 1989, the number of cases increased from 13,977 in 1989 to 75,531 in 1990. COTA anticipates that HB 2342 would create an incentive for property owners to appeal their valuations in order to establish a permanently low baseline property valuation. COTA estimates that the number of property valuation appeals that would require a decision under the bill would increase by approximately 300.0 percent, which would add approximately 17,000 additional cases each year. Because commercial appeals are subject to filing fees, COTA can offset a portion of the costs of processing additional commercial property appeals through increased filing fee receipts; however, the cost of processing additional residential filings cannot be offset because residential appeals are not currently subject to COTA filing fees. However, if the actual number of cases exceeds the estimate, then additional resources and FTE positions would be necessary to complete cases under the current timeframe set by statute and to prevent a backlog.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would limit expenditures for programs and services to the current level of property tax revenue that is collected unless a resolution or ordinance is adopted that would approve an increase. Taxing subdivisions would have new costs associated with publishing any resolutions adopted in the official county newspaper; however, those expenses would vary by taxing

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subdivision. Any fiscal effect associated with HB 2342 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Larry Baer, League of KS Municipalities
Melissa Wangemann, KS Association of Counties
Trevor Wolford, COTA
Dale Dennis, Education