

February 17, 2020

The Honorable Caryn Tyson, Chairperson  
Senate Committee on Assessment and Taxation  
Statehouse, Room 123-E  
Topeka, Kansas 66612

Dear Senator Tyson:

**SUBJECT:** Fiscal Note for SB 301 by Senator Hilderbrand, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 301 is respectfully submitted to your committee.

SB 301 would establish the fair market value of property on a triennium basis starting on January 1, 2021. The valuation of property would be set for three tax years under the triennium valuation system. The bill would allow the valuation to increase for the remaining portion of the triennium for improvements to the existing property or if the property did not have a valuation set at the beginning of the triennium. If the valuation appeal process reduces the value of the property during the triennium, then the reduced value will be utilized for the taxable year under appeal and the remaining portion of the triennium. The Director of Property Valuation at the Department of Revenue would be required to make a triennial determination of the value of land within the classes of land devoted to agricultural use within each county or homogeneous region as of January 1st of the first year of a triennium. This new valuation procedure would not apply to motor vehicles.

The Department of Revenue indicates passage of SB 301 has the potential to have a significant fiscal effect on state property tax revenues. The bill would allow for stable valuations for property owners for the three years of the triennium valuation. However, the valuation in year two and year three of the triennium valuation may not reflect the actual fair market value at that time. If the actual fair market value of property is increasing during the triennium valuation, then the bill would reduce the amount of property tax revenues that would be collected for the two building funds, the Educational Building Fund (fixed at 1.0 mills) and the State Institutions Building Fund (fixed at 0.5 mills). Reduced property tax revenue would also have an effect on state expenditures for aid to school districts. To the extent that less property tax revenue would be available from the state's uniform mill levy (fixed at 20.0 mills) to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. Conversely, if the actual fair market value of property is decreasing during the triennium valuation and property valuations are not reduced to reflect this change, then property tax revenues from the Educational Building Fund, State Institutions Building Fund, and the state's uniform mill levy would remain artificially high. The bill would have an undetermined

effect on local governments property revenues because the mill levy rate could be adjusted each year. The bill would have no fiscal effect on the operations of the Department of Revenue.

The Board of Tax Appeals (BOTA) indicates that the bill would significantly increase the number of valuation appeals based on its experience with similar language for commercial property valuation appeals that limit valuation increases for the next two tax years after the property valuations was lowered in a final determination. BOTA indicates that after the three years of the triennium valuation, property valuations would likely increase substantially to reflect actual fair market value, assuming actual fair market values are increasing at that time. Taxpayers are more likely to appeal when their valuations are increased substantially, even when valuations reflect the actual fair market value. Valuation appeals would be more likely in the first year of the triennium valuation because if the appeal lowers the valuation, then the valuation could not be increased for three years. BOTA indicates that the bill would require a total \$168,000 from the State General Fund in FY 2021 to hire 3.00 new FTE positions (1.00 attorney and 2.00 Administrative Assistants) to handle additional appeals due to the triennium valuation.

The Kansas Association of Counties indicates the bill would require county appraisers to visit all property in a county in the first year of a triennium valuation, which may require counties to hire temporary staff to help fulfill this requirement. The county appraiser would be required to capture any improvements or new construction in year two and year three of a triennium valuation, but the county appraiser would not be able to recognize changes in the market for properties that are in between valuations. The Association indicates the bill has the potential to substantially increase the number of valuation appeals, including informal hearings at the county level and hearings with BOTA. The county appraiser would only be allowed to change the fair market value of property once in a three-year period, which could lead to a cycle of property valuation appeals. All property taxpayers would have an incentive to appeal to get a lower valuation during each first year of a triennium valuation because if a lower valuation is granted then it would be fixed for the next three tax years. The League of Kansas Municipalities indicates that the bill would not affect cities because cities do not levy property taxes based on valuation, but levies taxes as a dollar amount. The county clerk determines the mill levy based on the dollar amount levied and the assessed valuation. Any fiscal effect associated with SB 301 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,



Larry L. Campbell  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Jody Allen, Tax Appeals  
Trey Cocking, League of Municipalities  
Jay Hall, Association of Counties  
Dale Dennis, Education