



Luke Bell
Vice President of Governmental Affairs
3644 SW Burlingame Rd.
Topeka, KS 66611
785-267-3610 Ext. 2133 (Office)
785-633-6649 (Cell)
Email: lbell@kansasrealtor.com

To: House Taxation Committee

Date: March 5, 2012

Subject: **HB 2609** -- Neutral Testimony on Property Tax Reform and the Impact of Transferring Funding to the Local Ad Valorem Tax Reduction Fund (LAVTRF)

Chairman Carlson and members of the House Taxation Committee, thank you for the opportunity to appear today on behalf of the Kansas Association of REALTORS® to offer neutral testimony on the impact of transferring funding to the Local Ad Valorem Tax Reduction Fund (LAVTRF) under **HB 2609** for comprehensive property tax reform efforts. Through the comments expressed herein, it is our hope to provide additional legal and policy context to the discussion on this issue.

KAR is the state's largest professional trade association, representing nearly 8,000 members involved in both residential and commercial real estate and advocating on behalf of the state's 700,000 homeowners for over 90 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life, sustainable communities and providing affordable housing opportunities, while protecting the rights of private property owners.

Over the last decade, the property tax burden on Kansas homeowners and small businesses has literally exploded as property taxes have increased from roughly \$1.97 billion in 1997 to over \$3.8 billion in 2010, which is a 94% increase in just 13 years. This dramatic increase in the property tax burden is nearly triple the rate of inflation and 9.5 times greater than population growth over the same time period.

Unfortunately, we believe that this dramatic growth in the property tax burden stifles the economic prosperity of many small businesses in Kansas who have seen a consistent increase in the amount of their income that is devoted to paying their property tax assessments. Furthermore, we believe the increased property tax burden also makes it more difficult for Kansas families to make ends meet and is severely burdensome for many senior citizens and low-income Kansans on fixed incomes.

According to a detailed analysis by the Tax Foundation, Kansas currently has one of the most burdensome property tax systems for businesses with a ranking of 41st in 2012. Since the Kansas Legislature has started to discuss comprehensive income tax reform to improve the economic growth climate in Kansas for small businesses and individual taxpayers, REALTORS® strongly believe that the Kansas Legislature should also take action to improve the business climate through comprehensive property tax reform.

Furthermore, in the report entitled *Location Matters: A Comparative Analysis of State Tax Costs on Business* recently released by the Tax Foundation, Kansas ranks 47th overall in terms of the most favorable tax climate on mature business operations and 48th overall for newly-established business operations. Although the report concludes that the corporate income tax burden on these businesses are either average or even slightly below average, the report states that Kansas has one of the highest (if not the highest) property tax burdens on business operations across all 14 categories of businesses.

Having said that, REALTORS® are unconvinced that providing funding to the Local Ad Valorem Tax Reduction Fund (LAVTRF) is the answer to the problem of the ever-increasing property tax burden facing Kansas families and businesses. To the contrary, a simple analysis of the historical background behind the funding of the Local Ad Valorem Tax Reduction Fund (LAVTRF) would reveal that providing more funding to the fund has not resulted in actual decreases in the property tax burden.

From 1997 through 2010, the total amount of property taxes collected by state and local governments in Kansas increased from \$1.97 billion in 1997 to over \$3.8 billion in 2010, which is again a 94% increase in just 13 years. In Chart 1 below on this page of my testimony, I have provided you with the total property tax collected, average mill levy rate and population growth for total state and local government property tax collections from 1997 through 2010.

Chart 1. Total State and Local Property Tax Collections from 1997 through 2010

Year	Property Tax Collected	% Change in Property Tax Collected	Average Mill Levy Rate	% Change in Mill Levy Rate	Population	% Change in Population
1997	\$1,964,731,848.16	N/A	108.4	N/A	2,594,840	N/A
1998	\$1,964,549,298.32	-0.01%	104.22	-3.86%	2,638,667	1.69%
1999	\$2,105,586,060.15	7.18%	107.38	3.03%	2,654,052	0.58%
2000	\$2,303,781,134.77	9.41%	110.36	2.78%	2,692,810	1.46%
2001	\$2,542,441,764.28	10.36%	113.21	2.58%	2,701,456	0.32%
2002	\$2,651,360,952.70	4.28%	115.1	1.67%	2,712,598	0.41%
2003	\$2,778,207,193.87	4.78%	115.95	0.74%	2,721,955	0.34%
2004	\$2,963,544,950.43	6.67%	116.68	0.63%	2,730,765	0.32%
2005	\$3,175,050,492.09	7.14%	117.51	0.71%	2,741,771	0.40%
2006	\$3,418,374,722.63	7.66%	118.02	0.43%	2,755,700	0.51%
2007	\$3,600,035,621.41	5.31%	119.66	1.39%	2,775,586	0.72%
2008	\$3,769,914,382.30	4.72%	121.61	1.63%	2,797,375	0.79%
2009	\$3,792,826,410.24	5.36%	125.13	4.57%	2,818,747	1.56%
2010	\$3,806,344,647.01	0.97%	129.25	6.28%	2,853,118	1.99%

During this time period, the LAVTRF was actively funded by the Kansas Legislature from 1997 to 2004. In 2004, the Kansas Legislature eliminated funding for the LAVTRF and no additional funding has been allocated to the fund since that time. As a result, local governments have not received funding from the fund for property tax relief since 2004.

According to the proponents of **HB 2609**, the elimination of funding for the LAVTRF has contributed to the astronomical increase in the property tax burden on Kansas families and businesses since 2004. As a result, you would anticipate that the total amount of property taxes collected by Kansas state and local governments has increased at a more rapid pace since the elimination of the LAVTRF in 2004 compared to the annual increases experienced by Kansas property taxpayers when funding from the LAVTRF was provided to local governments prior to 2004.

Unfortunately, there is absolutely no evidence that would prove a correlation between full funding for the LAVTRF and a corresponding decrease (or even a reduction in the annual increase) of total property taxes collected by state and local governments. In fact, the data provided in Chart 2 on the next page of my testimony actually shows that the average annual growth in the property tax burden on Kansas property taxpayers has decreased by a statistically significant 14.84% following the elimination of funding for the LAVTRF in 2004.

From 1997 through 2004, the average annual growth in the total property tax burden imposed on Kansas families and businesses was 6.1%. During this time period, the LAVTRF was fully funded by the Kansas Legislature and regular property tax relief payments were being transferred to Kansas local governments. Over the subject time period, the three of the four largest annual increases in the Kansas property tax burden actually occurred when the LAVTRF was fully funded in 1999, 2000 and 2001.

Following the elimination of state funding for the LAVTRF from 2004 through 2010, the average annual growth in the total property tax burden on Kansas families and businesses actually significantly decelerated by nearly a full percentage point to 5.19%. Accordingly, the average annual growth in the property tax burden on Kansas property taxpayers has actually decreased by a statistically significant 14.84% in the tax years following the elimination of funding for the LAVTRF in 2004.

Chart 2. Comparison of Property Tax Growth Between Pre- and Post-Elimination of LAVTRF.

AVERAGE ANNUAL GROWTH IN PROPERTY TAXES PRIOR TO ELIMINATION OF LAVTRF in 2004	6.10%
AVERAGE ANNUAL GROWTH IN PROPERTY TAXES AFTER ELIMINATION OF LAVTRF in 2004	5.19%
CHANGE IN PACE OF ANNUAL PROPERTY TAX REVENUE GROWTH BETWEEN PRE- AND POST-ELIMINATION OF LAVTRF	-14.84%

As a result, there is no evidence that would prove a correlation between full funding for the LAVTRF and a corresponding decrease (or even a deceleration or reduction in the annual increase) of the total property taxes collected by state and local governments. To the contrary, the data provided in my testimony actually shows that the average annual growth of the property tax burden on Kansas property taxpayers has actually grown at a slower annual pace following the elimination of funding for the LAVTRF in 2004.

Unfortunately, we believe that providing funding for the LAVTRF will not actually result in a decreased property tax burden or even a reduction in the annual increase of the property tax burden on Kansas families and businesses. In our opinion, the only way to provide substantial property tax relief to Kansas property taxpayers is to fundamentally reform how local governments increase property taxes on an annual basis through the passage of comprehensive property tax reform legislation.

In accomplishing comprehensive, real and substantial property tax reform, the Kansas Legislature should pass legislation that would increase the accountability and transparency of local governments that choose to increase the property tax burden on Kansas businesses and families through increases in either the assessed valuation of properties or mill levy rates. While this legislation fully preserves the absolute right of local control for local governments in approving property tax levies, it would provide property owners with a more accurate snapshot on whether the property tax burden is actually increasing in their communities through either increased assessed valuations or mill levy rates.

In a nutshell, this legislation would require the governing body of any local government with the authority to levy property taxes to adjust the jurisdiction's mill levy rate on an annual basis in order to ensure that the local government collects the same amount of total property tax revenue from existing properties as the previous year. Once the mill levy rate has been increased or reduced under this calculation, the governing body of the local government retains the absolute authority to authorize a property tax increase through a simple majority vote on an ordinance or resolution authorizing the property tax increase.

If enacted by the Kansas Legislature, nothing in the legislation would impair or restrict the ability of any local government to raise additional property tax revenues at the local level. Instead, the provisions of the bill would simply require any local government that wishes to increase property taxes to be accountable and transparent in increasing property taxes through the approval of an increase in the mill levy rate (rather than relying on annual assessed valuation increases to raise additional property tax revenue).

Prior to 1999, local governments in Kansas operated under a system that placed explicit annual caps and limitations on the ability of local governments to increase the property tax burden. In 1999, the Kansas Legislature repealed the property tax lid system and replaced it with the truth in taxation system, which requires annual public disclosure by local governments who wish to raise more property tax revenue in any tax year than the preceding tax year.

At that time, the proponents of eliminating the property tax lid argued that the provisions of the Truth in Taxation Law would be sufficient to protect Kansas taxpayers from an exponentially increasing property tax burden. Unfortunately, this has been proven to be a fallacy as the property tax burden on Kansas families and businesses has skyrocketed in the absence of any accountability or transparency in the Kansas property tax system.

As currently drafted, REALTORS® believe that our property tax reform legislation is a good faith effort to make some incremental improvements to the public disclosure requirements contained in the Kansas Truth in Taxation Law. Rather than reinstating a system of explicit annual caps and limitations on the ability of local governments to increase the property tax burden, our legislation simply increases the accountability and transparency of the process by requiring local governments to annually adjust the mill levy rate to account for increased (or decreased) assessed valuations on existing real property within the local government's jurisdiction.

In our opinion, our legislation would simply ensure that local governments are fully accountable to your constituents by requiring any local government who wishes to increase the property tax burden to increase the property tax mill levy rate rather than allowing a property tax increase through the stealth nature of annual assessed valuation increases. By approving this legislation, the Kansas Legislature would be taking a huge step forward in increasing the accountability and transparency of the Kansas property tax system.

In contrast, REALTORS® unfortunately believe that providing funding for the LATRF does not actually result in a reduction in the property tax burden (or even a deceleration in the increase) on Kansas families and businesses. While we appreciate the proponents concerns about the exponentially-increasing property tax burden on Kansas property taxpayers, we would urge your support for alternative legislation that would actually tackle the systemic and fundamental problems in the Kansas property tax system.

For all the foregoing reasons, we would urge the members of the House Taxation Committee to weigh the provisions of **HB 2609** very carefully in terms of the impact on the underlying goal of comprehensive property tax reform for Kansas families and businesses and to support alternative legislation that would actually systemically and fundamentally reform the Kansas property tax system. Thank you again for the opportunity to testify and I would be willing to stand for questions at the appropriate time.