

February 12, 2014

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

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 353 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 353 is respectfully submitted to your committee.

SB 353 would require the Director of Property Valuation at the Department of Revenue to value and assess complex industrial property. The bill defines complex industrial property to include tangible property used in the business of petroleum refining; paving and roofing materials manufacturing; natural gas processing; natural gas liquids processing; helium gas processing; fertilizer products manufacturing; ethanol production; or cement manufacturing. In determining the fair market value of complex industrial property, the Director of Property Valuation is required to determine whether improvements constitute real or personal property by considering the following factors: (1) annexation to the realty; (2) adaptation to the use or purpose of that part of the realty to which it is connected; and (3) the intention of the party making the annexation to make the item a permanent annexation to the real property.

The bill would require every taxpayer with complex industrial property to file with the Director of Property Valuation on or before March 15 of each year. The taxpayer would be required to provide all information that would allow the Director of Property Valuation to determine the valuation, classification, and assessment of complex industrial property. The Director of Property Valuation would be required to develop an appraisal cycle to allow all complex industrial property to be valued and assessed on or before January 1, 2018. The Director of Property Valuation would be authorized to contract with qualified appraisers or appraisal companies to help determine the value and assessment for each type of complex industrial property.

The bill would require the Director of Property Valuation to mail a statement of the valuation, classification, and assessment of the property to each taxpayer and each county where the property is located. An informal conference could occur to allow the county and the taxpayer to agree on the valuation, classification, and assessment of the property that is within the market value range determined by the Director of Property Valuation. Any proposed changes to the classification and specific fair market value of the property would be submitted by the county

and reviewed by the Director of Property Valuation. The taxpayer also has the right to an informal conference with the Director of Property Valuation.

At any time prior to October 1st of each year, the Director of Property Valuation would be allowed to correct any valuation that would make it more just and equal. The assessed values of complex industrial property would be certified to the county clerk of each county where the property is located on or before June 15. The county clerk would include the assessed values in the applicable taxing districts with all other assessed valuation on or before July 1 and notify the appropriate officials of each taxing district within the county of the assessed valuation estimates to be used in the preparation of budgets for ad valorem taxation purposes.

The board of county commissioners of any county where complex industrial property is located would be allowed to abate a portion of the property taxes to encourage and sustain industrial development and foster employment within the county. If tax revenues are insufficient to finance the adopted budget of any taxing district in the county as a result of the abatement, then the governing bodies of the taxing district would be allowed to apply to the Court of Tax Appeals for authority to issue warrants to pay for the budget shortfall. The Secretary of Revenue would have the authority to adopt rules and regulations to enforce the provisions of the bill.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	--	--
Expenditure	--	--	\$395,307	\$395,307
FTE Pos.	--	--	--	2.00

The Department of Revenue indicates that the bill would require a total of \$395,307 from the State General Fund in FY 2015 for administrative costs to implement the bill. The Department indicates that \$145,307 would be used for salaries and wages and operating costs associated with hiring 2.00 new FTE positions to manage this appraisal program and \$250,000 to contract with private appraisers. The annual private appraisal contract would be required through FY 2018 to allow all complex industrial property to be valued and assessed on or before January 1, 2018. Contract appraisal costs are based on the range of actual costs that have been incurred by counties that have contracted for private appraisals of complex industrial properties in recent years. Potential litigation costs in defending the state appraised values on appeal are not included in the Department's cost estimate.

The Division of Property Valuation (PVD) at the Department of Revenue estimates that 38 properties would meet the definition of complex industrial property and become appraised by PVD. In 2012, these properties totaled approximately \$555.0 million in assessed value that generated approximately \$11.1 million for the state's uniform mill levy to finance schools, \$555,000 for the Educational Building Fund, and \$277,500 for the State Institutions Building Fund. The Department of Revenue indicates the bill, in theory, would not change the amount of property tax revenues that are collected, as the bill does not change the requirement for real

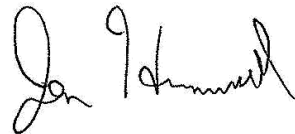
property to be correctly classed and appraised at fair market value and the taxable personal property to be correctly classed and valued at retail cost when new less depreciation. In application, the state appraisal of formerly locally appraised property has the potential to change the value for a number of properties, but it is not possible to estimate the results of future appraisals.

The bill has the potential to decrease property tax revenues by allowing a portion of the property taxes levied on complex industrial property to be abated by a board of county commissioners. The state funds directly affected by this bill are the two building funds, the Educational Building Fund and the State Institutions Building Fund. The Department of Revenue does not have data on the amount of property taxes that would be abated to make a precise estimate of the amount of reduced property tax revenue for the two building funds. Less property tax revenue would also have an effect on state expenditures for aid to school districts. To the extent that school districts would receive less property tax revenue through the state's uniform mill levy, the state provides more state aid through the school finance formula. Local governments that levy a property tax could also receive fewer revenues; however, the amount of revenues cannot be estimated. Any fiscal effect associated with SB 353 is not reflected in *The FY 2015 Governor's Budget Report*.

The League of Kansas Municipalities indicates that the new statewide appraisal process for complex industrial property has the potential to impact local governments within the state in different ways depending on how the valuation changes for any complex industrial property located within the jurisdiction of the local government. However, the League is unable to estimate the results of future appraisals to quantify the overall fiscal effect on local governments.

At the time the fiscal note was prepared, the Division of the Budget had not received fiscal note responses from the Court of Tax Appeals and the Kansas Association of Counties. If fiscal note information is received that materially alters the stated fiscal effect of SB 353, then a revised fiscal note will be prepared.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being more prominent than the last name "Hummell".

Jon Hummell,  
Interim Director of the Budget

cc: Jody Allen, Tax Appeals  
Dale Dennis, Education  
Steve Neske, Department of Revenue  
Melissa Wangemann, Association of Counties  
Larry Baer, League of Municipalities