

EROSION OF THE KANSAS PROPERTY TAX BASE

By

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Foreword

Numerous threats to the financing of local governmental services are looming on the horizon throughout the nation. State and local policy makers in Kansas have largely avoided draconian measures concerning the property tax, but the property tax base in Kansas has steadily narrowed over the past century and been reduced substantially in the last twenty years.

A study of these trends in erosion of the Kansas property tax base was proposed last summer to Secretary of Revenue Joan Wagnon in her roles as head of the Kansas Department of Revenue and chair of the Kansas Advisory Council on Intergovernmental Relations. In consultation with the Kansas Advisory Council, Secretary Wagnon initiated this study, as one of three undertaken by faculty in the Hugo Wall School of Urban and Public Affairs, Wichita State University, under the auspices of the Kansas Public Finance Center.

Dr. Glenn W. Fisher, Kansas Regents Professor Emeritus of Urban Affairs, was coaxed out of retirement to serve as principal investigator and primary author of this study on erosion of the property tax base in Kansas. He was assisted by Professor Ed Flentje, who conducted supporting research on the constitutional and statutory history of exemptions from property taxes, and Professor Bart Hildreth, who estimated the potential size of the property tax base and of property that is actually taxed. Graduate Assistant Crystal Gile assisted Professor Fisher with his work, entered data, and created many tables and figures, not all of which could be included in the final report. Graduate Assistant Nickolaus Hernandez prepared several maps. Ms. Jo Turner oversaw final editing and publication of the report.

This report draws primarily from data provided by the Division of Property Valuation, Kansas Department of Revenue, from publications and from special data runs that the Division conducted for the study. Personnel in the Division also answered many questions about the data and property tax procedures in Kansas. Thirty Kansas county appraisers answered a questionnaire, and the Johnson and Sedgwick county appraisers provided a listing of all exempt property in their counties.

On behalf of the Hugo Wall School and the Kansas Public Finance Center, we wish to thank Secretary Wagnon for her support of research on local finance and tax policy in Kansas and for her work and interest in improving state-local relations in Kansas.

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Executive Summary

Erosion of Property Tax Base in Kansas

Findings

- **The Kansas property tax is evolving into a real estate tax, and residential real estate is becoming a more important part of taxable real estate.** Real estate made up 44 percent of the total ad valorem base in 1988 and 65 percent in 2005. Residential real estate made up 22 percent in 1988 and 40 in 2005. (Figure 3)
- **The original constitutional exemptions of property used for educational, governmental, religious and similar purposes have been clarified and expanded by statute and total \$20 billion, but now are smaller, in relation to all taxable property, than they were fifteen years ago.** In 1989, the real estate exempted under this provision equaled 20 percent of the value of taxable property but by 2005 had declined to 15 percent.
- **Beginning in the 1970s, the exemption of personal property, especially business and agricultural property, has accelerated.** Most exempt personal property is neither listed nor appraised, but the number of exemptions has risen greatly. (Figure 1)
- **Local option exemption of real and personal property deemed important for economic development is common in Kansas.** In 2005, \$3.4 billion in appraised value, two percent of total appraised value, was exempted by cities and counties as IRB property or under the constitutional provision allowing exemption of certain property for economic development. Since 1993, total economic development exemptions have fluctuated from a low of 1.5 percent of the appraised value to a high of 2.8 percent.
- **The assessment of locally assessed real estate, the fastest growing category of property, is closely monitored by the state and is appraised close to market value.** In 2005, the statewide ratio of appraised value to sale price was 96 percent. (Figure 6)
- **State assessed utility property values are not subject to sales-ratio studies nor auditing by outside firms, and appraised value of this property is growing less rapidly than locally assessed real estate.** In 1988, public utility property made up 18 percent of assessed value, but dropped to 16 percent after the 1992 constitutional amendment and has since declined to 10 percent. (Figure 3)
- **The value of vehicles appraised by the statutory formula is close to that which would be produced by market-value appraisal, but the phase-in of a reduced assessment ratio in the 1990s resulted in a \$1.5 billion reduction in assessed value.** Current motor vehicles make up 11 percent of assessed value, as compared with 14 percent in 1988.

- **Use-value appraisal of agricultural land has resulted in appraised value far below market value.** Statewide, agricultural land was sold at a median of 12 percent of use-value assessment. In some large counties, agricultural lands sell for more than one-hundred times their use-value appraisal. Detailed, county-by-county analyses have not been made, but much of the benefit of use-value appraisal does not go to those continuing in the farming business. Residential property owners in most agricultural counties pay much higher taxes as the result of use-value assessment.
- **County appraisers report “abuse” or difficulty caused by exemptions of farm equipment, neighborhood revitalization property, and industrial property.** Taxpayers often claim agricultural exemption on equipment that is used largely for uses other than agriculture. Exemption for repairs and additions to complex industrial properties are often granted at several different times for the same building. Neighborhood revitalization property is not exempt, but taxes on the incremental increase in value are earmarked for uses that benefit the property owner by cash refund or repayment of bonds. Keeping track of these many increments and property owners greatly complicates the appraiser’s job.

Policy Choices

The property tax began as a simple tax on all wealth. Since it was adopted in Kansas in the mid-1800s, statutory and constitutional changes have transformed it into a tax that is largely a real estate tax supplemented by a tax on utility property and motor vehicles, both of which are declining in relative importance. In view of the importance of the property tax as a source of local government revenue, Kansas faces painful choices. Among the possible policies are the following.

- **Continue on the current path.** This choice will undoubtedly make financing local government more difficult and will raise the burden on residential property. This choice may eventually spark a taxpayer revolt that could lead to the kind of arbitrary tax or expenditure limitations that have hampered the provision of government services in California and many other states.
- **“Clean up” the property tax laws and develop rational policy for exemptions and then examine all present and proposed exemptions in light of the policy.** This approach has severe limitations since some needed changes would likely require constitutional amendments and any attempt to repeal existing statutory or constitutional exemptions would meet fierce opposition.
- **Return toward “uniform and equal.”** Drafting and passing such an amendment would require the agreement of major interest groups and might require a commission or some kind of “mini” constitutional convention.

- **Repeal all taxes on personal property and reconfigure local government and government functions so that local governments finance only property-related services from the property tax.** For example, social services now funded with local property taxes would have to be financed by state revenues or other revenue sources.
- **Authorize local government broader access to sales and income taxes.** This choice might be done by consolidating small governments or by creating taxing districts that could more effectively levy income or sales taxes. More governmental functions, for example, schools, could be shifted to the state level.

THE EROSION OF THE PROPERTY TAX BASE IN KANSAS

For much of America's history, the property tax was the main source of revenue for state and local governments. The tax was well suited for use in the sparsely populated substance economies, which characterized most states when state and local governments were established.

Typically, the state legislature divided the state into counties and gave them the responsibility of enforcing the state's laws, including the responsibility of collecting taxes for the state and local governments. State law also outlined procedures for establishing "optional" governments such as municipalities or special districts. The result was a profusion of property tax financed governments.

In 1930, property taxes funded 82 percent of state and local governments in Kansas, but since that time, state government has turned to other sources of revenue, notably sales and income taxes, with the property tax providing only a small part of state revenue.

Along with the shift to other taxes as a source of state revenue, there has been a major shift in the property tax base. Originally, there was a strong belief that a uniform tax on all forms of property—real and personal, tangible and intangible—was the fairest tax, and provisions requiring that form of taxation were written into most state constitutions. Over the years, administrative problems, concerns about double taxation, and the belief that certain kinds of property were less able to bear the burden have led to many modifications of the "uniform tax on all property" idea.

The changes that have occurred have made the tax an increasingly complex system. Several different agencies assess property at different percentages of appraised value. Many types of property are exempted from taxation, and the owners of some kinds of property pay an in lieu tax based on measures other than value. Some property is tax exempt, but the owners may make in lieu payments negotiated with local government.

Table 1 shows the amounts of property taxes levied in 2005 and in lieu payments for the 2006 support of the 3,663 governments of various types.

The current tax not only raises revenue, but it also is used as an instrument of planning which affects the economic and social behavior of citizens. Administering this complex system of exemptions and special features is costly to local governments and unpopular with citizens. Taxpayers complain about the tax, but it remains an essential means of financing the many local government units that exist in Kansas.

Table 1
Distribution of Tax Levies and In Lieu Payments for 2006, by Taxing Districts
(in Thousands)

Taxing Government	Ad Valorem Tax (Including Penalty)	In Lieu Payments of Taxes				Total
		Money/ Credits	IRB Bond Properties	Economic Development Properties	All Other	
State	\$ 40,597	\$ 0	\$ 174	\$ 28	\$ 0	\$ 40,799
County	911,172	1,171	2,672	561	86	915,662
City	530,599	898	3,279	711	317	535,804
Township	47,956	576	0	4	0	48,537
School	1,500,286	0	8,516	1,515	167	1,510,483
Cemetery	4,093	0	1	0	0	4,094
Drainage	4,063	0	122	131	0	4,316
Fire	41,844	0	24	11	0	41,879
Hospital	13,984	0	0	0	0	13,984
Improvement	1,312	0	0	0	0	1,312
Library	42,857	0	141	12	0	43,011
Lighting	9	0	0	0	0	9
Parks and Recreation	16,308	0	184	9	0	16,501
Sewer	154	0	0	0	0	154
Watershed	3,290	0	0	0	0	3,290
Airport Authority	2,615	0	6	0	0	2,621
Ambulance	384	0	0	0	0	384
Community Building	13	0	0	0	0	13
Ground Water Management	0	0	0	0	0	0
Industrial	170	0	0	0	0	170
Irrigation	0	0	0	0	0	0
Rural Highway System	2,696	0	0	0	0	2,696
Tax Increment	8,110	0	0	0	0	8,110
Water	32	0	0	0	0	32
Miscellaneous	8,268	0	14	0	0	8,282
Total	3,140,215	2,646	14,959	2,956	570	3,161,345

Source: *Statistical Report of Property Assessment and Taxation, 2005*

The Ad Valorem Tax Base

Ad valorem taxes are defined in this report as those that are related in some way to the value of the taxed property. Most of the taxes in this category are based on a market value of the property as determined by an appraiser. However, some are appraised in other ways. For example, agricultural land is appraised at its value in agricultural use, and some machinery is appraised at its depreciated purchase price.

The tax base is *assessed* value, which is some fraction of *appraised* value as specified by the Kansas Constitution or statutes.

Table 2 is a snapshot of the Kansas ad valorem tax base, as it exists today. Real estate assessed by county appraisers is by far the largest class of property, making up 65 percent of the total base. Locally assessed personal property, state assessed public utility property, and motor vehicles account for the remainder of the tax base and are roughly equal in size.

Table 2
Kansas Ad Valorem Tax Base, 2005

	Assessment Rate	Assessed Value (in Millions)	Percent of Total
<u>Real Estate</u>			
Residential*	11.5%	\$ 12,207	40.2%
Agricultural Land (Use Value)	30	1,593	8.8
Vacant Lots	12	184	1.0
Not-for-Profit	12	52	0.3
Commercial/Industrial	25	5,560	30.6
Agricultural Improvement	25	182	1.0
All Other	30	28	0.2
TOTAL REAL ESTATE		7,599	41.9
<u>Personal Property</u>			
Residential Mobile Homes	11.5	69	0.4
Mineral Leaseholds	25/30	1,888	10.4
Motor Vehicles (Locally assessed)	30	147	0.8
Commercial/Industrial Mach./Equip.**	25	1,845	10.2
Boats/Marine/Trailers	30	84	0.5
All Other	30	63	0.3
TOTAL PERSONAL***		4,096	22.6
<u>State Assessed Public Utility****</u>	33	3,117	17.2
<u>Motor Vehicles</u>			
Motor Vehicles, Taxed When Tagged	20	3,055	16.8
16/20M Vehicles	20	68	0.4
State Assessed Vehicles	30/25	217	1.2
TOTAL MOTOR VEHICLES		3,340	18.4
TOTAL AD VALOREM		18,152	100.0

* Includes Farm Homesteads

** Retail Cost New, Less Depreciation

*** Excludes penalty of \$45.6 million

**** Railroads are assessed at the same rate as other commercial and industrial property.

Source: Kansas Property Valuation Division, *Statistical Report of Property Assessment and Valuation*, 2005

Residential property, which is assessed at 11½ percent of its appraised value, makes up more than one-half of the real estate class and 40 percent of the total ad valorem base. Commercial and industrial real estate is the second largest real estate subclass, followed by agricultural land, which is assessed at 30 percent of its value in agricultural use. Commercial and industrial machinery and equipment, assessed at 25 percent of its depreciated cost, is the largest subclass of locally assessed personal property.

State assessed utilities are assessed at 33 percent of value, except for railroad property, which is assessed at the same rate as other commercial and industrial property. The different treatment of railroad property is the result of a federal lawsuit brought under the federal Four-R Act, which forbids discrimination against interstate railroad property. The railroad assessment rate is determined each year, using data from the Kansas ratio studies to determine the level of assessment of “other commercial and industrial property.”

The motor vehicles subclass, designated as “locally assessed” personal property in Table 2, is mostly larger trucks that are not used for hire. The subclass includes trucks owned and used by a business for its own purposes, as well as farm trucks. They are appraised by the county appraiser at market value and assessed at 30 percent of appraised value.

The motor vehicle class, shown near the bottom of the table, is composed of three subclasses. “Taxed when tagged” vehicles are cars, light trucks, and some recreational vehicles. They are appraised using data calculated by the Kansas Property Valuation Division and made available to county treasurers. Vehicles are assigned to a class based on resale value when new, and the value of that class is depreciated at 15 percent per year. The county treasurer collects the tax when the vehicle is registered. Trucks in the 16/20 thousand-weight class are appraised in a similar way, but the taxes are billed and collected as are other local taxes. Trucks that are registered “for hire” are assessed and taxed at the state level. References to motor vehicles in this report will generally refer to this class and do not include motor vehicles shown in the personal property class.

In Lieu Taxes

Taxes on several kinds of property, which proved to be difficult to administer or were especially unpopular, have been exempted from ad valorem taxation. Some types are subject to other forms of taxation in place of (in lieu of) ad valorem taxation. Table 3 shows the in lieu taxes still in effect. The largest of these, the mortgage registration tax, is a tax based on the amount of the mortgage and is paid at time of registration. The local intangible tax is the remnant of the tax on “monies and credits” which is based on the income from certain intangibles. It is now a local option and levied by some townships and cities. In lieu taxes are not considered ad valorem taxes in this report. Because these taxes are not based on value, the properties are not appraised or assessed, and the values shown in Table 3 show *taxes levied* rather than appraised or assessed values.

Recreational Vehicles	\$ 3.6
Rental Vehicle Excise	2.9
Locally Levied Intangibles	2.6
Public Utility Intangibles	0.0
All Other Intangibles	0.6
Mortgage Registration Fees	54.6
Mortgage Heritage Fees	2.2
TOTAL	66.5

*Does not include IRB or EDX payments

Source: Kansas Property Valuation Department, *Statistical Report of Property Assessment and Valuation, 2005*

In lieu *taxes* should not be confused with in lieu *payments*. *Taxes* are compulsory and are imposed by a governmental authority. In lieu *payments*, such as those made in connection with Industrial Revenue Bonds and Economic Development exemptions, are negotiated between the taxpayer and the appropriate government. They are legally binding obligations, but are not taxes.

The Evolution of the Ad Valorem Tax Base

The Wyandotte Constitution advanced the ideal of uniform and equal taxation of property with clarity and simplicity:

The Legislature shall provide for a *uniform and equal rate of assessment and taxation*; but all property used exclusively for State, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation.

Governor Thomas Carney (1863-65) championed the constitutional ideal in 1862, as follows, “Let all protected by the State share equally its burdens in proportion to their property.”

Since the adoption of the Wyandotte Constitution in 1859, the constitution’s finance and taxation article has been successfully amended on only eight occasions concerning matters of property taxation (twice in 1924, 1964, 1974, 1976, twice in 1986, and again in 1992). These eight amendments, however, have departed from uniform and equal assessment and taxation of property for the benefit of at least 23 specific property interests. Appendix A, Table 1 summarizes the chronology of these departures and identifies the benefiting property.

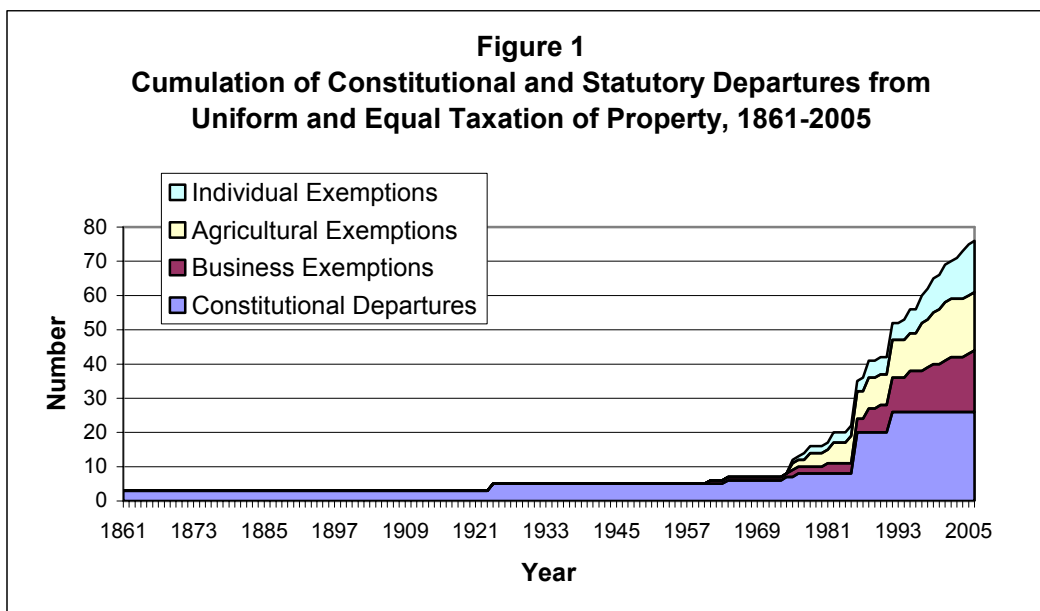
These constitutional departures from uniform and equal assessment and taxation have benefited mineral interests, banking and private finance, homeowners, agricultural landowners, merchants, manufacturers, farmers, ranchers, commercial and industrial property owners, mineral leaseholders, nonprofit organizations, and public utilities, among others. Of the 23 departures, fourteen targeted benefits to business property, five to agricultural property, three to homeowners, and one to nonprofit organizations.

Thirteen of the constitutional departures from uniform and equal benefit personal property. The 1986 economic development exemption (Article 11, Section 13) benefits both real and personal property. The classification amendments of 1986 and 1992 provide differential assessment for five categories of real property: residential, commercial and industrial, agricultural, public utility, and non-profit.

In addition to constitutional departures from uniform and equal taxation of property, state lawmakers have enacted at least 51 statutory exemptions to the property tax. In some cases, these exemptions have interpreted and implemented constitutional provisions. In other cases, lawmakers have created completely new exemptions within the realm of their constitutional authority and over time have expanded or extended those exemptions. These statutory exemptions may be categorized as:

- 20 exemptions benefiting business property;
- 17 exemptions benefiting agricultural property; and
- 15 exemptions benefiting the property of individuals.

Tables 2, 3, and 4 in Appendix A trace the cumulation of constitutional departures from uniform and equal taxation of property and statutory exemptions to the property tax that benefit business, agricultural, and individual properties, respectively. Figure 1 is derived from Appendix A Tables 1-4 and displays the growing number constitutional departures and statutory exemptions from 1861 to the present.



Constitutional Changes

Statutory changes and litigation over the meaning of property or exemption provisions were common from the earliest years of statehood. Many complained that some kinds of property were less able to bear taxes than others, but constitutional amendments removing the uniformity clause from the constitution failed in 1914 and 1920.

Taxes on some forms of wealth, especial intangibles, proved hard to administer or risked double taxation of the same wealth. A constitutional amendment permitting the classification of mineral products, money, notes, and other evidences of debt passed in 1924, and the legislature subjected several kinds of property to taxes other than the ad valorem.

The 1963 constitutional amendment exempted household goods and personal effects not used for the production of income. In the same year, a law requiring that property be assessed at 30 percent of its fair market value in money and a law requiring a county-by-county reappraisal was enacted. The 1963 reappraisal took many years, generated a great deal of protest and some outright defiance. It produced little long term improvement in the quality of assessment.

In 1974, a constitutional amendment authorized the classification of automobiles, and the law was changed to integrate the taxing and licensing process.

In 1986, voters approved a constitutional amendment classifying real and personal property into different classes and providing that each class be assessed at specified percentages

of appraised value. The amendment and the values established in a massive multi-year reappraisal effort were effective on January 1, 1989. After many complaints from those whose taxes increased, another amendment was proposed and passed in 1992. Effective in January 1993, it made additional changes to subclasses and the assessment rates. The new assessment rates, which range from 11½ percent for residential property to 33 percent for utility property, are shown in Table 2.

The three constitutional amendments, passed in 1986 and 1992, and the statewide reappraisal made major changes in the composition of the tax base. Table 4 shows assessed values before the changes (1988), after reappraisal and the reclassification amendment and reappraisal went into effect (1989), and in 1993.

Table 4
Assessed Values Before and After Classification
(Values in Millions)

Property Class	1988 Assessed Value	1988 Percent of Total	1989 Assessed Value	1989 Percent of Total	1993 Assessed Value	1993 Percent of Total
Real Estate						
Residential	\$ 2,854	21.6%	\$ 4,766	29.69%	\$ 5,087	29.7%
Agricultural	1,671	12.6	1,490	9.28	1,328	7.8
Vacant Lots	48	0.4	159	0.99	131	0.8
Not-for-profit		0.0		0.00	0	0.0
All Other	1,251	9.5	3,237	20.16	41	0.2
Commercial/Industrial					2,698	15.7
Agricultural Improvement					110	0.6
TOTAL REAL ESTATE	5,824	44.0	9,652	60.12	9,395	54.8
Personal Property						
Gas and Oil (Mineral Leasehold)	1,135	8.6	1,192	7.42	1,390	8.1
Business Machinery & Equipment	854	6.5	688	4.29	1,077	6.3
All Other Personal	58	0.4	100	0.62	70	0.4
Mobile Homes	32	0.2	51	0.32	37	0.2
Recreational Vehicles					31	0.2
Motor Vehicles	245	1.9	106	0.66	126	0.7
Merchants' Inventory	371	2.8	exempt		exempt	
Manufacturers' Inventory	382	2.9	exempt		exempt	
Livestock	116	0.9	exempt		exempt	
TOTAL PERSONAL PROPERTY	3,193	24.1	2,137	13.31	2,731	15.9
PUBLIC UTILITY	2,334	17.6	2,316	14.43	2,715	15.8
Motor Vehicles (Taxed when Tagged)	1,784	13.5	1,860	11.59	2,172	12.7
16/20 M Vehicles						
State Assessed Vehicles	96	0.7	89	0.55	120	0.7
TOTAL MOTOR VEHICLES	1,880	14.2	1,949	12.10	2,292	13.4
TOTAL AD VALOREM PROPERTY	13,231	100.0	16,054	100.00	17,133	100.0

Prepared from data from the *Statistical Report of Property Assessment and Taxation*. Because of changes in the sub-classes, 1988 and 1989 may not be exactly compatible with 1993. Penalties excluded.

Class Changes, 1988-2005

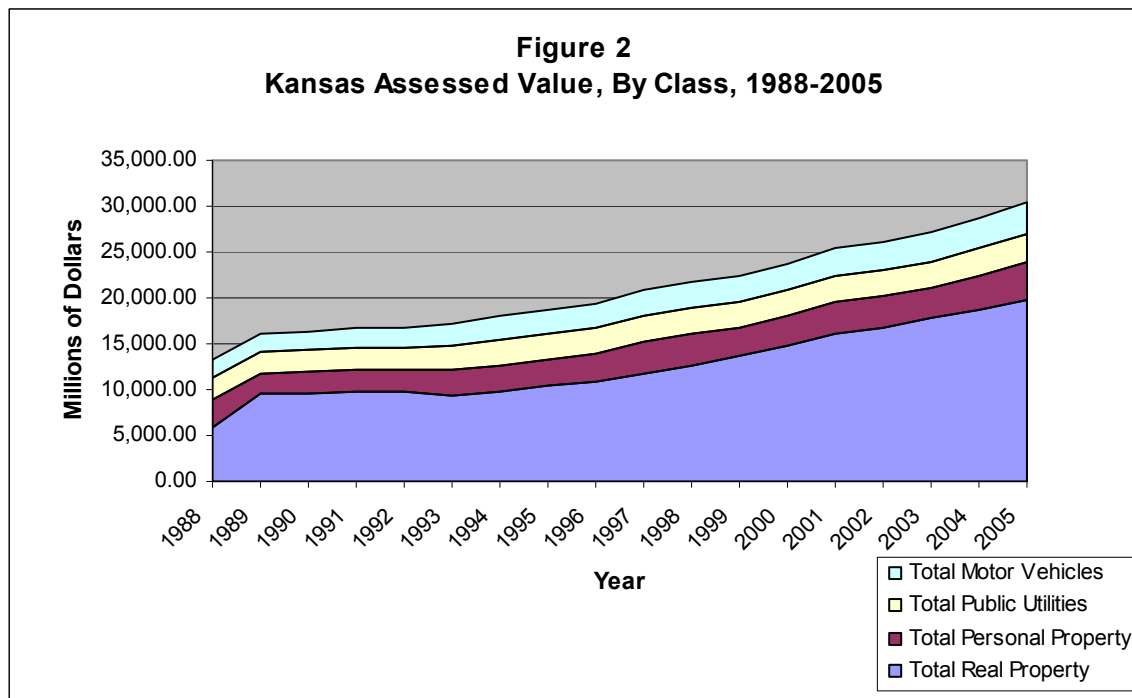
Even after the massive changes caused by reappraisal and constitution amendments, the tax base has continued to change. The most prominent change is that the Kansas property tax is rapidly becoming a real estate tax. Table 5 shows that the real estate portion of the tax base has risen from 44.0 percent of the tax since in 1988 to 65.1 percent in 2005. The other three classes have all risen in dollar amounts, but make up a smaller proportion of assessed value. Figures 2 and 3 graphically illustrate the year-by-year composition of the tax base, both in dollars and as percentages.

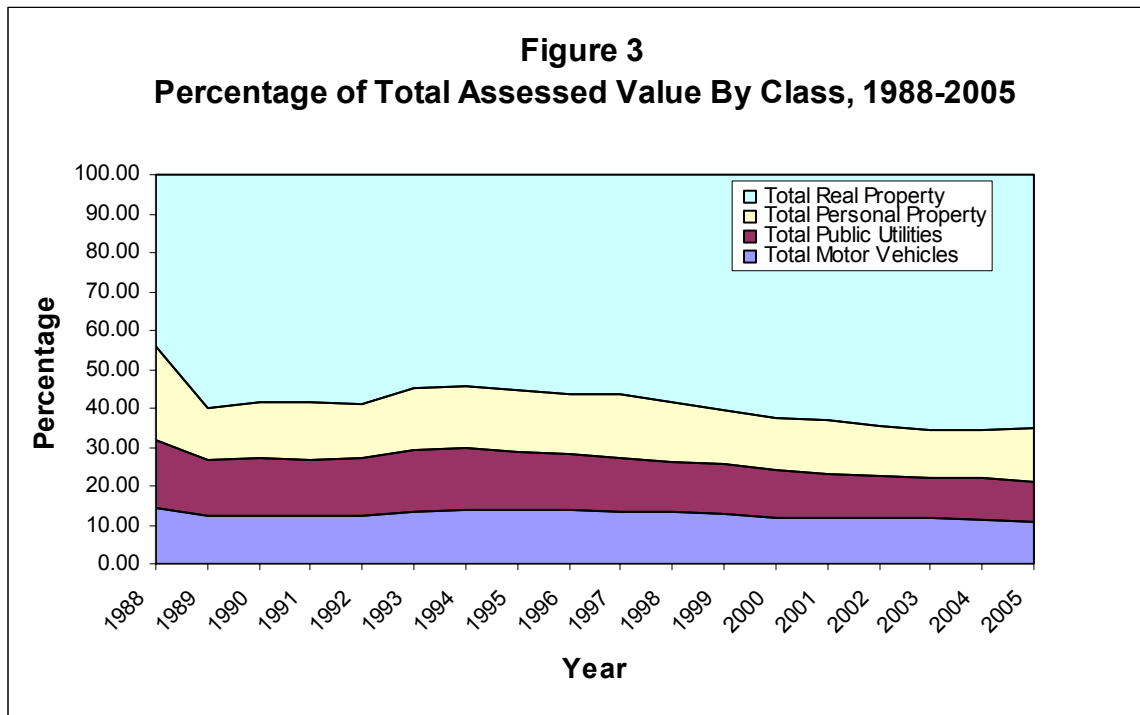
Table 5
Summary of Major Class Changes, 1988-2005^
(Values in Millions)

Property Class	1988	1988	1989	1989	1993	1993	2005	2005
	Assessed Value	Percent of Total	Assessed Value	Percent of Total	Assessed Value	Percent of Total	Assessed Value	Percent of Total
Real Estate	\$ 5,824	44.0%	\$ 9,652	60.1%	\$ 9,395	54.8%	\$ 19,805	65.1%
Personal Property	3,193	24.1	2,137	13.3	2,731	15.9	4,142	13.6
Public Utilities	2,334	17.6	2,316	14.4	2,715	15.8	3,117	10.3
Motor Vehicles	1,880	14.2	1,949	12.2	2,292	13.4	3,340	11.0
Total Assessed	13,231	100.0	16,054	100.0	17,133	100.0	10,599	100.0

^Does not include not-for-profit land values

Source: *Statistical Report of Property Assessment and Taxation* 1989, 1993, and 2005





Both personal property and public utility property assessed value have increased, but they have decreased as a percentage of the total.

In spite of the phased reduction in the assessment rate of “taxed when tagged” vehicles (1996-2000), the assessed valuation of motor vehicles rose from \$1.8 billion in 1988 to \$3.2 billion in 2004, but making up a slightly smaller percentage of the tax base than in 1988.

Subclass Changes

Table 6 provides more information about the changes that have occurred in the assessed values of real estate subclasses since 1993. The same information in the form of an index is shown in Figure 4 with 1993 being 100 percent. It shows that the assessed value of residential property rose more rapidly than any other subclass of real estate. The commercial and industrial real estate index and the index for the whole class are almost identical. All other subclasses—commercial and industrial real estate, vacant lots, agricultural land, and other real estate—rose less rapidly than the real estate class as a whole.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Residential RE*	\$5,087	\$5,388	\$5,956	\$6,331	\$6,864	\$7,365	\$7,974	\$8,766	\$9,487	\$10,092	\$10,821	\$11,467	\$12,207
Agricultural Land **	1,328	1,328	1,328	1,294	1,303	1,329	1,351	1,433	1,553	16,069	1,563	1,607	1,593
Vacant Lots	131	122	141	123	125	125	128	139	142	154	159	159	184
Not-For-Profit		17	16	30	35	42	39	48	55	58	54	53	52
Com/Ind RE	2,698	2,741	2,837	3,021	3,312	3,628	3,976	4,254	4,557	4,731	5,036	5,268	5,560
Ag Improvements	110	115	121	126	131	137	145	153	160	167	170	176	182
All other Real Estate	41	27	26	26	29	29	31	30	32	28	28	27	28
Total Real Estate	9,395	9,737	10,425	10,952	11,797	12,655	13,645	14,823	15,986	16,836	17,831	18,756	19,805

*Includes Farm Homesteads

**Agricultural Land Appraised at Use Value

Source: *Statistical Report of Property Assessment and Taxation*, 1993-2005

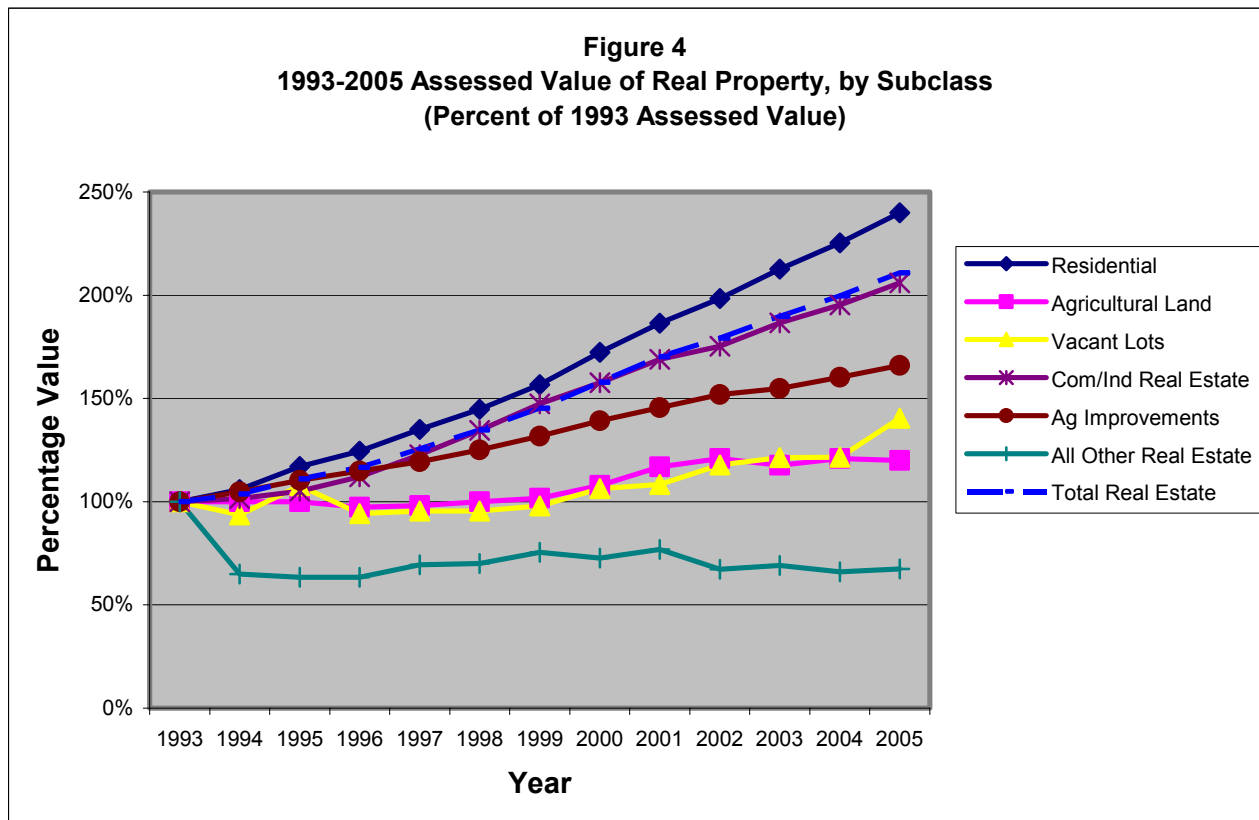


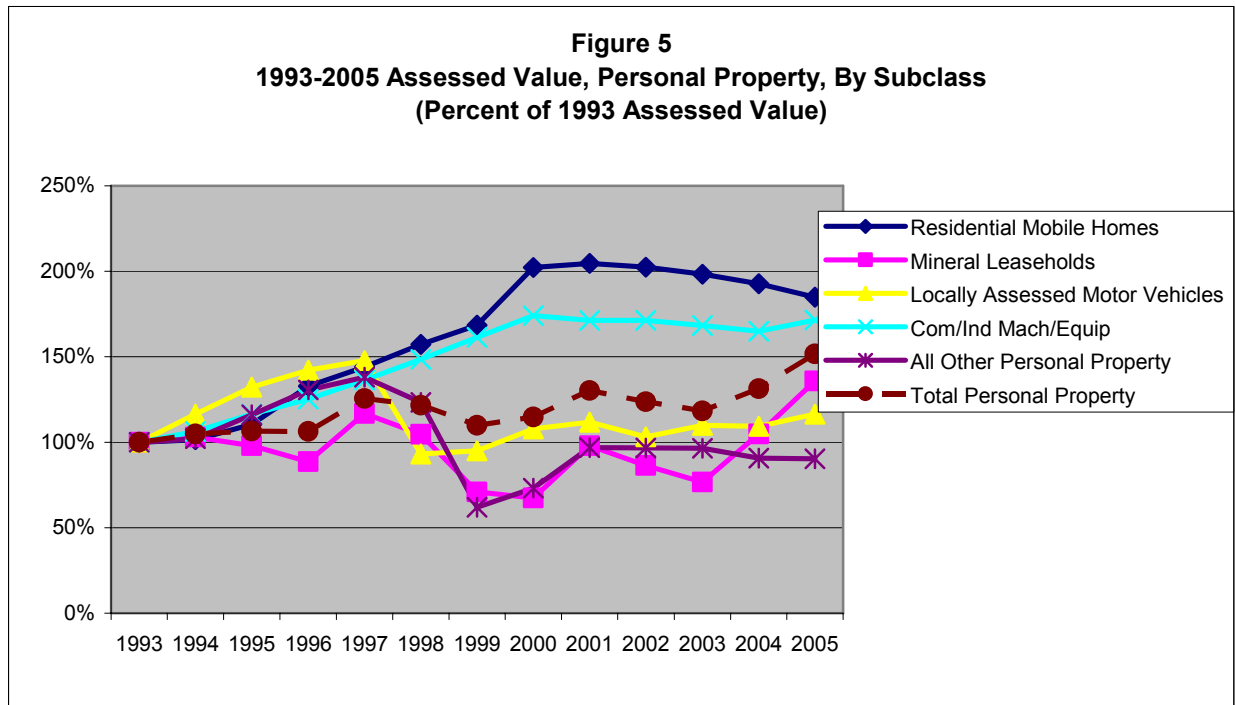
Table 7 and Figure 5 show the data and indexes for the subclasses of personal property. The assessed value of both residential mobile homes and commercial and industrial machinery and equipment have risen erratically and more rapidly than the class as a whole. The other classes have risen less rapidly, with a good amount of year-to-year changes.

Table 7
1993-2005 Assessed Value of Personal Property Subclasses (in Millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Residential Mobile Homes	\$ 37	\$ 38	\$ 41	\$ 50	\$ 54	\$ 59	\$ 63	\$ 76	\$ 77	\$ 76	\$ 74	\$ 72	\$ 69
Mineral Leaseholds	1,390	1,432	1,362	1,233	1,623	1,455	986	937	1,362	1,201	1,067	1,457	1,888
Motor Vehicles	126	147	167	179	186	118	120	136	141	130	139	138	147
Com/Ind Mach/Equip*	1,077	1,144	1,253	1,348	1,468	1,599	1,737	1,874	1,845	1,843	1,812	1,776	1,845
Recreational Vehicles	32	31	7	3	2	8	53	59	64	65	73	81	84
All other Personal Property	70	72	81	92	97	87	43	51	68	68	68	64	63
Penalty	27	29	31	22	25	33	36	44	47	46	46	49	46
Total Personal Property	2,759	2,892	2,942	2,927	3,455	3,358	3,039	3,178	3,602	3,429	3,278	3,637	4,142

*Retail cost when new, less depreciation

Source: *Statistical Report of Property Assessment and Taxation*, 1993-2005



Source: *Statistical Report of Assessment and Taxation* for the corresponding years

Causes of Change

Changes in the size and composition of the tax base have many causes. Among the causes of the changes in the Kansas tax base are the following:

1. *Change in character and amount of property in Kansas.* The potential tax base is always changing as Kansas taxpayers acquire or dispose of property. Such changes result from population and industrial movement, technology changes, and changes in taxpayer ownership of consumer goods and property. Unfortunately, detailed analysis of the changes that have occurred in the composition of property in Kansas would require detailed wealth estimates that are beyond the scope of this report, although some preliminary work has been done.¹

¹ See insert on page 20 and Appendix D.

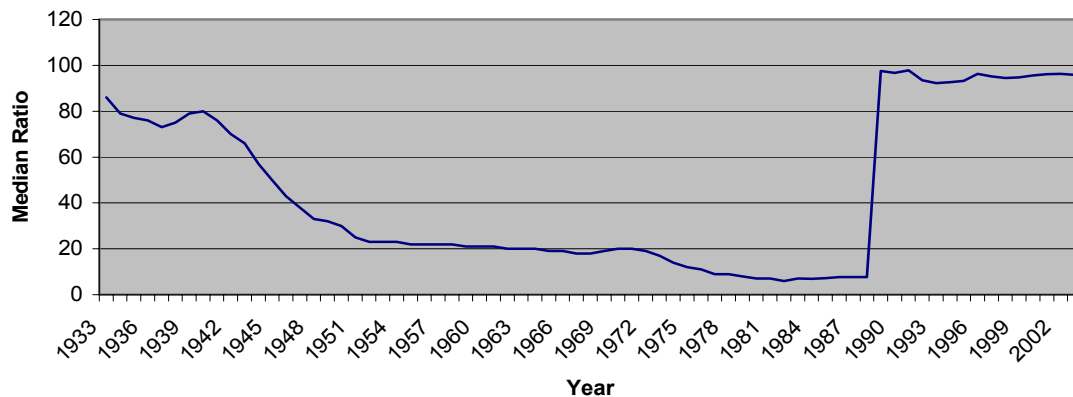
2. *Administrative change.* The early history of the property tax in Kansas is the history of a largely unsuccessful effort to achieve uniform taxation of all property. Although the constitution was clear, the idea that locally elected, part time assessors would equitably value all property proved to be an illusion. Often several different local assessors assessed property in a taxing district at several different levels, and the levy in that district imposed different burdens. For example, if the township assessors in a county assessed at different levels, the county levy would impose a different burden on property in different townships. The taxpayers who elected the assessor had an incentive to pressure their assessor to keep his assessments low even though the township tax rate would rise and the total township tax would be unaffected. The state made many efforts to train assessors and persuade them to assess at the specified level, but these efforts met with only limited success.²

One way to measure the level of assessment in an area or in a class of property or the equality of assessment within that area or class is to compare the prices at which properties have sold.

Dividing the appraised or assessed value of properties that have sold produces a measure of the level of assessment of that parcel. If the property sold is representative of all the property being studied, the ratio is a good measure of the general level of assessment. Such studies have been conducted in Kansas for more than a century. In the earlier years, methodology was sometimes crude, but the results of these early studies are sufficiently reliable to prove that assessments were far from the statutorily prescribed standard.

Figure 6 shows the statewide ratios of sales value to appraised values for real estate beginning in 1933. In that year, the law required that property be assessed at 100 percent of value, but the median ratio was 86 percent. It declined rapidly to 20 percent in 1962. In 1963, the legislature reduced the required assessment level from 100 percent of value to 30 percent of value. Apparently, it was thought there would be less protest if values were assessed at 30 percent rather than 100 percent.

Figure 6
Median Appraisal/Sales Ratio, 1933-2004



Source: Real Estate Assessment Ratio Studies for the corresponding years

² Chapters 6, 7, 8 of Glenn W. Fisher, *The Worst Tax: A History of the Property Tax in America* (University Press of Kansas, 1996) contains an account of these efforts.

The coefficients of dispersion (CODs), which measure assessment variation within a district or among a group of properties, were also very high. In many counties some properties were assessed at two or three times the average level.

The statewide reappraisal that accompanied the implementation of classification from 1989 to 1993 greatly changed the situation. Local assessment personnel, trained and supervised by a team of experts, mapped and identified every parcel of property in the state and implemented a CAMA (computer-assisted mass appraisal) program in every county. The Division of Property Valuation now had the responsibility of supervising local appraisers, certified by the state and hired by the county. To be “in compliance,” appraisers must follow certain regulations imposed by the Division. County medians and CODs, as measured by ratio studies, must fall within certain ranges. In 1993 in a case involving school finance, Judge Terry Bullock of the Shawnee County District Court established statistical standards that must be met (State of Kansas v. Beshears, 1993).

Since the implementation of the new procedures, the state median assessment ratio has never fallen below 92 percent; it currently is 95.8 percent.

Statutory and Constitutional Exemptions

State constitutions and statutes, including those in Kansas, usually provide for the taxation of all property not specifically exempted. Property is exempted when, in the minds of the lawmakers, the property provides some benefit to the community that justifies special treatment. In 1871, the Kansas Supreme Court put it this way:

The obligation to pay taxes is coextensive with the protection received. An exemption from taxation is a release from this obligation. It is the receiving of protection without contributing to the support of the authority which protects it. It is an exception to a rule and is justified and upheld upon the theory of peculiar benefits, received by the state from the property exempted. Nevertheless, it is an exception: and they who claim under an exception must show themselves within its terms.³

The 1866 Kansas tax statute, which replaced a statute borrowed from territorial laws, included a long list of exemptions, but the drafters attempted to limit the breath of this exemption by liberal use of the word *exclusively*. Property of religious, benevolent, educational, and governmental organizations had to be used *exclusively* for the stated purpose.

The only exemption for individually owned property was the \$200.00 per family exemption required by the constitution and an exemption for family libraries and schoolbooks. An exemption of \$500.00 for widows, which was in territorial law, was eliminated and this resulted in one of the first public controversies over an exemption. A group of Lawrence widows protested that it was taxation without representation and asked that the exemption be restored or that women be given the right to vote. A special Senate committee considered the issue at some length and, on a divided vote, refused to recommend a change. Since that time, there has been a constant stream of court decisions, legislative enactments, Board of Tax Appeals decisions, and administrative actions, interpreting or changing the taxable status of property.

³ Washburn College v. Commissioners of Shawnee County, 8 Kan. 344 (1871)

Current Statewide Exemptions

Although the differential rates of assessment provided in the constitution could be considered partial exemptions, this section deals only with provisions that are labeled *exemptions* in the constitution or statute.

Table 8 lists the statewide exemptions currently in effect. They are arranged by purpose as classified by the Property Valuation Division and the authors of this report.

Table 8
Statewide Property Exemptions, 2005

Religious Exemptions

ER

Kan. Const. art. XI, § 1, cl. B	Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes
K.S.A. 79-201	Property used for public worship
K.S.A. 79-201	Property used for literary, educational, scientific, religious, benevolent, or charitable purposes
K.S.A. 79-201	Parsonages
K.S.A. 79-201	Convents, monasteries, etc.

Education Exemptions

EE

Kan. Const. art. XI, § 1, cl. B	Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes
K.S.A. 79-201	Property used for school district purposes
K.S.A. 79-201	Property used for literary, educational, scientific, religious, benevolent, or charitable purposes
K.S.A. 79-201	Property of a public or nonprofit Kansas college or university
K.S.A. 79-201a	Property financed with revenue bonds for buildings and facilities at educational institutions
K.S.A. 79-201a	Student union buildings and student dormitories
K.S.A. 79-201a	Industrial training centers at vo-tech schools, technical and community colleges
K.S.A. 79-201a	Vo-tech, technical and community college student unions or dormitories

Literary Exemptions

EL

Kan. Const. art. XI, § 1, cl. B	Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes
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K.S.A. 79-201 Property used for literary, educational, scientific, religious, benevolent, or charitable purposes

Scientific Exemptions

ES

Kan. Const. art. XI, § 1, cl. B Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes

K.S.A. 79-201 Property used for literary, educational, scientific, religious, benevolent, or charitable purposes

Benevolent Exemptions

EB

Kan. Const. art. XI, § 1, cl. B Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes

K.S.A. 79-201 Property of 501 (c)(3) Veterans Organization

K.S.A. 79-201 Property used by a 501 (c)(3) non-profit entity for humanitarian services

K.S.A. 79-201 Property of a nonprofit hospital or a nonprofit psychiatric hospital

K.S.A. 79-201b Property of nonprofit adult care homes

K.S.A. 79-201b Property of nonprofit children's home

K.S.A. 79-201b Property used exclusively as housing for elderly or handicapped persons; property used as cooperative housing for persons with limited or low income

K.S.A. 79-201b Property owned by a nonprofit organization and used to house elderly persons

K.S.A. 79-201b Property used as group housing of mentally ill, retarded, or handicapped; nonprofit organization

Government Exemptions

EF (Federal)

K.S.A. 79-201a Property owned by the United States Government

EK (Kansas)

Kan. Const. art. XI, § 1, cl. B Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes

K.S.A. 79-201a Property used exclusively for state purposes

K.S.A. 79-201a Property acquired and held by Kansas armory board for armory purposes

K.S.A. 79-201a Property acquired by Kansas Turnpike Authority

K.S.A. 79-201a Property acquired and used for state park purposes by Wildlife and Parks

K.S.A. 79-201a State Office Buildings

K.S.A. 79-201a Kansas City, MO Waterworks
K.S.A. 79-201a Property acquired by the Secretary of Transportation for highway purposes

EG (Groundwater Management)

K.S.A. 79-201a Groundwater Management district property

EC (County)

Kan. Const. art. XI, § 1, cl. B Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes

K.S.A. 79-201a Property owned by county fair associations

K.S.A. 79-201a Joint water district

K.S.A. 19-26,111 Wyandotte County Land Bank

EM (Municipalities)

Kan. Const. art. XI, § 1, cl. B Property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent, and charitable purposes

K.S.A. 79-201a Property used exclusively for municipal or political subdivision purposes, including property leased for medical services and certain property funded by industrial revenue bonds, up to 10 years

K.S.A. 79-201a Works, machinery, and fixtures used by a rural or township water district

K.S.A. 79-201a Fire engines and implements

K.S.A. 79-201a Property acquired and held by a municipality under municipal housing law

K.S.A. 79-201a Property acquired and held by a municipality for urban renewal

K.S.A. 79-201q Municipal airports and airport authorities

K.S.A. 79-201s Certain municipal airports

K.S.A. 79-201r Strother Field Airport

K.S.A. 27-319(b) Salina and Pratt Airports

K.S.A. 12-3418 Property of Port Authorities

Agricultural and Land Exemptions

Kan. Const. art. XI, § 1, cl. B Farm machinery and equipment, livestock

K.S.A. 79-201j Farm machinery and equipment

K.S.A. 79-201d Hay, silage, farm storage and drying equipment

K.S.A. 79-201n Grain

K.S.A. 79-201j Aquaculture and Christmas tree farm machinery and equipment

K.S.A. 79-201g Land contiguous to a lake

K.S.A. 79-201e Reclaimed mined land

Economic Development Exemptions

Kan. Const. art. 11, § 1, cl. B	Merchants' and Manufacturers' Inventory
K.S.A. 79-201	Renewable energy resources or technology property (wind, solar, thermal, and landfill gas resources and technologies)
K.S.A. 79-201k	Business aircraft
K.S.A. 79-201m	Merchants' and Manufacturers' Inventory
K.S.A. 79-201o	Construction hand tools
K.S.A. 79-219	Mechanic's hand tools
K.S.A. 79-201p	Motor vehicles held as inventory for sale by motor vehicle dealers
K.S.A. 79-201t	Certain low-producing oil leases
K.S.A. 79-201w	Any item of machinery, equipment, material, and supplies which had a retail cost when new of \$400 or less
K.S.A. 79-215	Personal property held for sale or display at a fair, exposition, trade show, auction, bazaar, flea market, or convention
K.S.A. 79-221	Certain leased property integrally associated with property exempt under Article 11, Chapter 13 of the Kansas Constitution

Military Exemptions

K.S.A. 79-5107(e)	Up to two motor vehicles owned by a Kansas resident who is in the full-time regular military and who is deployed on the date of application for motor vehicle registration
Soldiers & Sailors Civil Relief Act	Personal property not used in a trade or business that is owned by a non-resident military person who is stationed in Kansas due to military orders

Individual Exemptions

Kan. Const. art. 11, § 1, cl. B	All household goods and personal effects not used for the production of income
K.S.A. 79-201c	All household goods and personal effects not used for the production of a second income, household goods and personal effects shall not be deemed to be used for the production of income when used in the home for registered or licensed daycare operations. Wearing apparel of every person, pick-up truck shells, sailboards, etc.
K.S.A. 79-220	Antique aircraft: model must be 30 years old or older and used exclusively for recreational or display purposes
K.S.A. 79-201x	Exempts the first \$20,000 of appraised value for residential property from the statewide school finance mill levy

Source: *Kansas Constitution, Kansas Statutes Annotated*

The first six groups could be called “original constitutional exemptions.” They are all for property used for governmental, religious, charitable, and similar uses that were in the original Kansas constitution and are found in some form in all state constitutions. The two letter codes are those used by the Property Valuation Division for administrative purposes. The statutes cited

are provisions that define, limit, or expand the constitutional language. The last four groups were classified as to purpose by the authors of this report.

Property owned and used by religious, educational, and benevolent organizations are exempted in the belief that they provide services to the community that reduce the burden on government. Governmental organizations were exempted in part for constitutional reasons and in part for reasons of convenience in administration. The federal constitution and the doctrine of intergovernmental immunity prevent state and local governments from taxing most federally owned property. State and local governments are prohibited from taxing each other's property because it would often result in them taxing the same property in order to pay taxes to the other governments.

Many of the early controversies over these exemptions involved the definition of the exempted uses. For example, several early court cases involved disputes over how much land was part of a campus or church property. In one case, the Court held that property used as a religious headquarters was exempt as religious use.⁴ In the Washburn College case, quoted previously, the Court held that unimproved land held as a future site for a campus was not used exclusively for an exempt purpose and was therefore not exempt.

Sometimes the legislature added language to modify or clarify the meaning of constitutional exemptions. For example, K.S.A. 79-201a makes it clear that Area Vocational-Technical Schools are exempt as educational property and that Groundwater Districts are governments for the purpose of tax exemption. Many of these changes come about because of changes in conditions. To illustrate, industrial training centers under contract with the private sector and area vocational-technical schools did not exist when the constitution and early statutes were written. Neither did the practice of donating private motor vehicles to charity.

The statutes require local county appraisers to assess the real estate that is exempt under these provisions. Table 9 compares the appraised value of taxable real estate with appraised value of state exempted real property for each year since 1989. In that period, exempt values as a percentage of taxable values have declined from 19.8 percent to 14.8 percent. Data shown in Table 10 reveal that almost all of the property included in this table are for the traditional constitutional exemptions for educational, religious, government, or benevolent purposes.⁵

⁴ *Trustees of the United Methodist Church v. Cogswell*, 205 KS 847 (1950).

⁵ It is often stated that county appraisers give little attention to valuing exempt properties and that they are badly under-appraised. Because the Property Valuation Division does record sales prices for exempt property, we were able to do a ratio study that indicates that exempt property may be slightly over-appraised. However, it should be noted that the sold properties did not include large complex properties such as capital buildings or university campuses.

Year	Appraised Value Exempt Real Estate	Appraised Value Taxable Real Estate	Exempt as Percent of Taxable Real Estate
1989	\$ 11,220	\$ 56,800	19.8%
1990	10,709	56,479	19.0
1991	10,755	58,163	18.5
1992	11,040	58,679	18.8
1993	10,843	61,122	17.7
1994	10,836	63,946	16.9
1995	11,276	69,447	16.2
1996	12,409	73,321	16.9
1997	13,533	79,222	17.1
1998	14,063	85,020	16.5
1999	16,368	91,828	17.8
2000	15,506	100,290	15.5
2001	16,249	108,386	15.0
2002	17,783	114,558	15.5
2003	19,385	121,996	15.9
2004	19,516	128,699	15.2
2005	20,206	136,480	14.8

Source: Division of Property Valuation, Statistical Reports

Code	Subclass	Number of Parcels	Appraised Value (Millions)	Percent of Total Value
EE	Educational	4,367	\$5,668	28.0%
EM	Municipality	21,556	3,368	16.6
EF	Federal	3,271	3,023	14.9
ER	Religious	10,265	2,864	14.1
EB	Benevolent	3,379	2,107	10.4
EC	County	4,449	1,494	7.4
EK	Kansas	2,633	1,456	7.2
EP	Graveyards	2,923	87	0.4
EA	Agricultural (79-201d)	460	58	0.3
EG	Groundwater Districts	631	45	0.2
EO	Other, Sedgwick	41	42	0.2
EL	Literary	182	35	0.2
ES	Scientific	33	14	0.1
ED	Exempt Dam	954	4	0.0
EQ	Reclaimed Land	4	3	0.0
TOTAL		55,148	20,268	100.0

Source: Compiled from parcel data provided by Property Valuation Division, County Appraiser, and Sedgwick County Appraiser. May contain some 2005 data that is not identical with totals in Table 6.

The data in Tables 9 and 10 do not include the exemptions of personal property such as furniture, vehicles, and equipment owned by exempt organizations. It does not include data on the exemptions of agricultural and business personal property and other property listed in Table 8 as agricultural, economic development, military, and individual exemptions shown in the last four groups in Table 8. Exemptions made by local governments under the economic development provision in the constitution or in connection with IRBs are discussed in a later section.

An estimate of the total market value of real and personal property in Kansas is shown in the insert to the right.

Local Option Exemptions

Certain local governments are allowed to exempt property from taxation, usually as part of an economic development or community redevelopment effort. Industrial Revenue Bonds (IRBs) are issued by governmental units as a way of assisting businesses to borrow money at a lower rate. The business owner pays “rent” which is used to repay the bonds and when the bonds are fully paid, the property is legally transferred to the business. Because the bonds are issued by a governmental unit, the interest received by the bond owner is usually exempt from federal income taxation, thereby allowing the bonds to be issued at a lower rate of interest.

Kansas law allows the governmental unit issuing the bonds to exempt property constructed, improved, or purchased with IRB financing. It also allows the issuer of the bonds to negotiate payments in lieu of taxes. The agreement to make in lieu payments is a legally binding obligation, but the payments are not taxes.

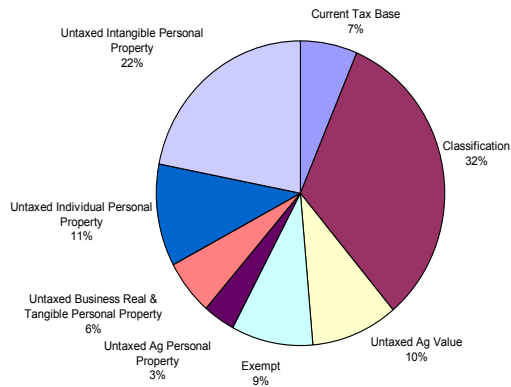
The property tax was originally intended to be a tax on the stock of wealth, in essence all property – real and personal, tangible and intangible. The framers of the Kansas Constitution provided exemptions only for public, educational, and charitable purposes, plus a \$200 exemption of personal property per family. A comprehensive property tax with few exemptions was believed to be the most equitable form of taxation.

Estimating the property tax base without any exemptions or other legal deviations from market value is an exercise that permits the discussion to return to the original concept of a “uniform and equal” property tax on all property, including the original constitutional exemptions. Although no previous attempt to estimate this total “theoretical” property tax base in Kansas could be found, an admittedly imprecise initial estimate was derived based on a series of estimating assumptions.

The result, as shown in the figure below, reveals that the Kansas constitution and statutes currently exempt or otherwise do not tax approximately 93 percent of the estimated total tax base. The current classifications account for part of this deviation from uniform and equal. Taxing all property would encompass the following types of assets currently untaxed: the difference between the currently allowed agricultural use value and full market value; tangible personal property, including household goods, business inventories, and farm equipment and animals; and personal and business intangible personal property including bank account balances, securities holdings, and other intangible assets.

In summary, Kansas taxes an estimated 7 percent of the total possible property tax base. Any future exemptions would further reduce the tax base.

Total Estimated Market Value of Real and Personal Property in Kansas



Estimates prepared by W. Bartley Hildreth. See Appendix D for sources used.

Economic Development Exemptions, sometimes referred to as EDXs, are authorized in constitutional amendment approved in 1986. Article 11, Section 13 now states that counties and cities may exempt real and personal property used exclusively for a new business for (a) manufacturing, (b) research, or (c) storing goods traded in interstate commerce. The exemption may also be granted for the purchase of existing property or the improvement of property if new employment is created.

Tax Increment Financing (TIF) is a procedure that allows local governments to earmark revenues from increased valuation in a designated area to pay bonds issued to cover development costs or to be refunded. There is no decrease in the tax levy, but the incremental funds are used for the benefit of the taxpayer or developer.

Kansas has authorized the use of tax increment financing to pay costs associated with redevelopment districts, bioscience districts, blighted/environmentally contaminated areas, auto racetrack facilities, historic theaters, flood-plain redevelopment districts, downtown development districts, transportation districts, self-supporting improvement districts, and neighborhood revitalization districts. The legislation providing for each use contains its own set of requirements for planning and authorizing tax increment financing. The increase in tax receipts after the improvement, in every case but one, is used to repay bonds issued to finance the improvement. The exception is neighborhood improvement districts, where taxes may be refunded to property owners who make improvement using their own funds.

Although rather detailed information must be reported to the state, little information about tax increment finance is compiled on a statewide level. Eight counties reported tax increments of just over eight million dollars in 2004. Tax rebates under the neighborhood rehabilitation act are reported and compiled by the Division. In 2004, these totaled \$9,067,543.

Table 11 shows the appraised value of exempt IRB and EDX exempt property since 1993. Exempt value rose from \$1.3 billion in 1993 to over \$3.3 billion in 2005. The percentage of taxable property exemptions rose from 1.5 percent to 1.9 percent in 2005, but there has been a good deal of year-to-year fluctuation.

Year	Taxable Appraised Value (In Millions)	Exempt Appraised Value (In Millions)	Exemptions as % of Taxable Value
1993	\$87,484	\$1,312	1.5%
1994	91,333	1,379	1.5
1995	97,957	2,046	2.1
1996	102,644	1,968	2.8
1997	111,760	1,749	1.6
1998	118,266	1,513	1.3
1999	126,834	1,928	1.5
2000	135,713	2,470	1.8
2001	145,763	2,758	1.9
2002	151,786	3,240	2.1
2003	159,482	3,353	2.1
2004	168,378	3,228	1.9
2005	178,461	3,395	1.9

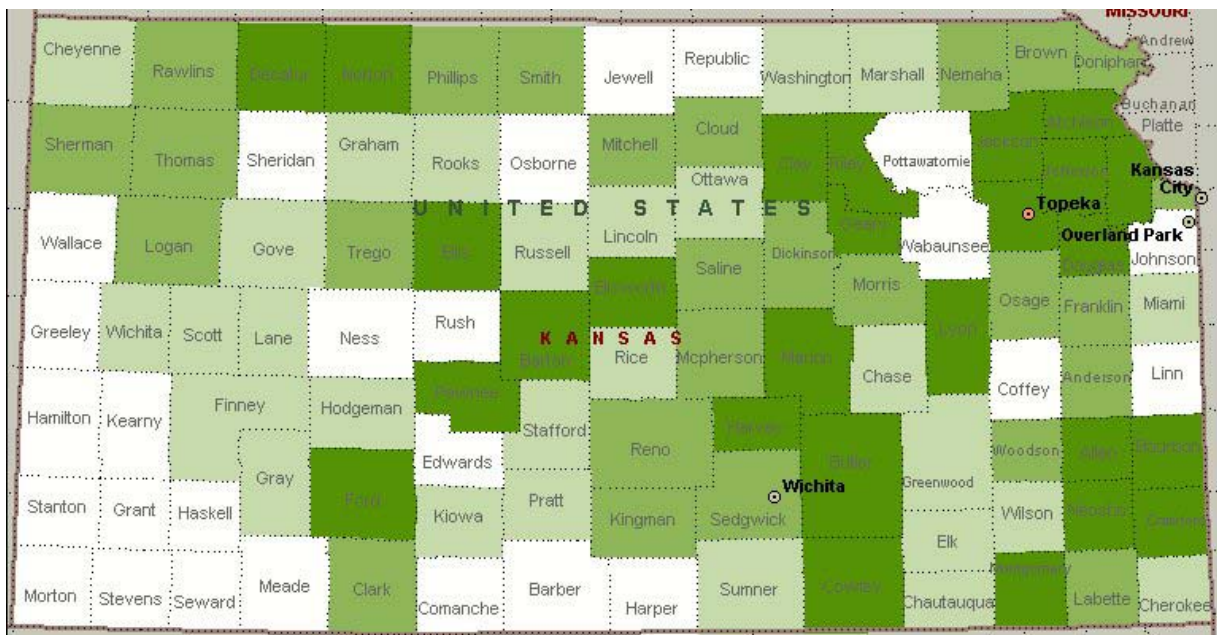
Source: *Statistical Report of Property Assessment and Taxation*, corresponding years

In 2005, in lieu payments for the two programs were just over \$18 million or 0.5 percent of total property taxes levied in the state.

Local Variations

The impact of exemptions on local governments varies widely. This is partly because the state exemptions of property such as universities and state buildings are much larger in some counties and partly because of differences in local policy regarding IRB and EXD exemptions. Map 1 illustrates the variation. In Jackson County the appraised value of these exemption is equal to 43.1 percent of taxable appraised values. In Leavenworth County, the percentage is almost as high. At the other extreme are several counties where these kinds of exempt property make up less that 4 percent of the value of taxable property. Within counties, the variations among local governments may be even greater. Data for all the counties can be found in Appendix B.

Map 1
Exempt Property as Percent of Taxable, By Counties*



Exempt as a % of Total by

- 36% to 45%
- 27% to 35%
- 18% to 26%
- 9% to 17%
- 0% to 8%

*Exempt property includes state exempted real estate (Table 9) and locally exempted real and personal property (Table 11).

Administration of Exemptions

The Kansas statutes require that an application for exemption be filed with the county appraiser who makes a preliminary examination of the facts, recommends that the application be approved or denied, and forwards the request to the Board of Tax Appeals. If the Board of Tax Appeals grants the exemption, the applicant must file an annual request to continue the exemption. The appraiser values the property yearly and, if the exemption is not for a limited number of years, the owner is obligated to inform the assessor if there is a change in use of the property.

The following kinds of property are excluded from the requirement that an application be made for tax exemption:

1. All household goods not used for the production of income
2. Hay and silage
3. Farm machinery, aquaculture equipment, Christmas tree equipment, nurseries, etc.

4. Merchants' and manufacturers' inventory
5. Grain
6. Business machinery costing less than \$400.00
7. Vehicles owned by non-profit organizations for transporting elderly and disabled
8. Property used for right-of-way purposes
9. Property acquired and used by Kansas Turnpike Authority
10. Highway property acquired and used for highway purposes by the Secretary of Transportation
11. Property held for sale or display at a fair, convention, auction, flea market, etc.
12. No more than two motor vehicles owned by Kansas military personnel activated and deployed
13. Personal property, not used in a trade or business, of non-resident military person
14. Livestock

These properties are, for the most part, personal property that has been exempted in the last few years. Normally these types of property are neither listed nor appraised.

Although the dollar amount that these exemptions represent is not available, Figure 1 and Tables 1-4 in Appendix A show the rapid increase in the number of these exemptions since the 1970s. These exemptions are probably responsible for much of the relative decrease in the importance of personal property in the tax base.

Administering the exemption provision of both the Economic Development Exemptions (EDX) and Industrial Revenue Bonds (IRB) is considerably more complicated, and appraisers report that a good deal of time is spent by the local officials such as the appraiser and county clerk.

Economic Development Exemptions (EDXs) and Industrial Revenue Bond exemptions (IRBs) require the completion of cost-benefit analysis and public hearings and are restricted to certain uses. Because of the many requirements and agencies involved, the crosschecks and verifications require a great deal of time. Appraisers, clerks, and others involved often keep flow diagrams and checklists to ensure that all steps are completed. Some appraisers report that it is especially difficult to keep track of values when several exemptions have been allowed for improvements or additions to the same property.

Tax increment financing is not, strictly speaking, an exemption, but involves even more administrative problems. Many of the procedures are the same as for IRBs and EXDs, but in addition, the appraiser and the county clerk must keep track of the increments and allocate funds to the proper places. This is especially difficult and time consuming when there are many property owners in the project area.

In addition to the administrative costs borne by local governments, the expenses of departing from "uniform and equal taxation" are legislative, judicial, and administrative costs borne by state government and applicants for exemptions. As a rule, the more exemptions that are granted the more lines that must be drawn between exempt and nonexempt property and the more the administrative and judicial costs.

Impact of Agricultural Use Value Assessment

A constitutional amendment allowing agricultural land to be taxed on the basis of its value in use for agricultural purposes was approved in 1976. The purpose of use value assessment is to allow a farmer to continue to farm land without being taxed at a market value based on the land's possible use for non-agricultural purposes. The provision was not utilized until after the passage of the comprehensive reappraisal law in 1986.

Agricultural use value is computed by capitalizing the estimated income that would be produced by the land in agricultural use. Data regarding the productivity of various soil types, average cost of production, and prices of farm products are provided by the Department of Revenue's Division of Property Valuation. The land values are computed by the county appraiser.

The annual ratio study conducted by the Division of Property Valuation compared the use value appraisal with the market value of agricultural land even though agricultural land is not appraised at market value. These data make it possible to estimate the market value of agricultural land. Table 12 shows the result of such a comparison. In 2005, agricultural land that was sold had a median appraised value of 11.7 percent of its market value. Using that number, it is possible to estimate the market value of all agricultural land at \$45.2 billion as compared to the use value assessment of \$1.6 billion. Low appraisals are partly offset by the 30 percent assessment ratio constitutionally assigned to agricultural lands. In Table 12, different appraised to assessment ratios are assumed in order to permit more accurate comparisons. If agricultural land had been assessed at 11.5 percent of market value as residential property is, the assessed value would have been \$5.2 billion or 225 percent greater than it is. If it had been assessed at 25 percent of market value as is commercial and industrial real estate, the assessed value would have been about 600 percent greater in 2005.

Much of the tax relief is enjoyed by owners of land that has a high market value in possible non-farm uses rather than by farmers who want to continue to farm. Speculators or developers can obtain assessment far below market value by "farming" the land at a minimum level up until the eve of beginning development. Around major cities, it is common to see plots of land producing only the few bales of hay necessary to qualify the land as agricultural. The impact of this is shown in the median level of appraisal of .3 of one percent in Wyandotte County and one-half of one percent in Johnson and Sedgwick counties.

In counties that are heavily agricultural, the assessment ratios are higher although they still result in agricultural land being favored. In those cases, the burden is shifted to other taxable property, mostly residential property.⁶

The effect of the favorable treatment of agricultural land varies greatly from county to county. In small, rural counties, it probably results in a substantial increase in property tax

⁶ County-by-county calculations of the shift in taxation resulting from use value taxation were made by the author. Because some counties had few sales of agricultural use value land, the ratios might not be reliable for every county; results have not been published. The calculation shows that for many rural counties the valuation reduction is several times greater than the value of all taxable property.

rates, and much of the impact is borne by other property owners in the county. Because of the state tax levy and the school finance mechanisms, some of the impact would be on taxpayers in other parts of the state. Obviously, small, rural counties with little or no agricultural land would be impacted the most.⁷

Table 12
Statewide Market Value of Agricultural Land, 1989-2005 (Millions of Dollars)

Year	Total Use Value	Appraisal Ratio	Estimated Market Value	Actual Assessment	11.5% Assessment	25% Assessment
1989	\$4,966	0.111	\$44,742	\$1,490	\$5,145	\$11,185
1990	4,741	0.116	40,870	1,422	4,700	10,218
1991	4,678	0.125	37,422	1,403	4,304	9,356
1992	4,532	0.118	38,406	1,360	4,417	9,601
1993	4,428	0.114	38,842	1,328	4,467	9,710
1994	4,426	0.118	37,511	1,328	4,314	9,378
1995	4,427	0.118	37,513	1,328	4,314	9,378
1996	4,313	0.118	36,547	1,294	4,203	9,137
1997	4,342	0.108	40,201	1,303	4,623	10,050
1998	4,429	0.104	42,590	1,329	4,898	10,647
1999	4,505	0.107	42,099	1,351	4,841	10,525
2000	4,775	0.110	43,409	1,433	4,992	10,852
2001	5,180	0.113	45,841	1,553	5,272	11,460
2002	5,356	0.115	46,578	1,607	5,356	11,644
2003	5,210	0.115	45,306	1,563	5,210	11,326
2004	5,355	0.116	46,168	1,607	5,309	11,542
2005	5,312	0.117	45,176	1,593	5,195	11,294

Source: *Statistical Report of Property Assessment and Taxation and Sales Ratio Report*

Motor Vehicles

Taxed-when-tagged motor vehicles and 16/20 M vehicles are assessed using statutory procedures that require the Property Valuation Division to group vehicles into groups based on resale cost when new and depreciate the group by 15 percent per year, with no allowance for condition. Assessed value was 30 percent of appraised value prior to 1996 when a phased in reduction to 20 percent began.

Research by the Property Valuation Division shows that the average appraised values produced by this method are very close to the values in the used car price manuals. The major deviation was for new cars, purchased at the beginning of the model year, which may be appraised as a new car for more than one year.⁸

⁷ For a more detailed discussion of the impact and burden of the favorable treatment of agricultural land, see: Kansas Department of Revenue, *Property Valuation IAAO Agricultural Use Value Study*, 8/22/05. There are specific examples of the impact on various levies, using a large and a small county.

⁸ The report was presented to the interim tax committee on September 10, 2004, by Roger Hamm of the Kansas Property Tax Division.

The reduction of assessed value from 30 percent to 20 percent resulted in a substantial reduction in assessed values as shown in Table 13. For 2005, the *tax* reduction can be calculated at about \$154 million.

Year	Actual Assessment	Thirty Percent Assessment	Reduction
1996	\$2,499	\$2,632	\$133
1997	2,561	2,896	335
1998	2,672	3,270	598
1999	2,653	3,979	1,326
2000	2,619	3,928	1,309
2001	2,739	4,109	1,370
2002	2,866	4,299	1,433
2003	2,961	4,441	1,480
2004	3,052	4,577	1,525
2005	3,123	4,684	1,561

Source: *Statistical Report of Property Assessment and Taxation*, 1996-2005

Conclusion

Although data as to the value of many kinds of exempt property are not available, one thing is clear from the data presented here. The Kansas property tax is rapidly becoming a real estate tax, and an increasing portion of taxable real estate is residential property.

Between 1988 and 2005, the assessed valuation of real estate increased from 44.0 percent of the base to 65.1 percent. Personal property has declined from 24.1 percent to 13.6 percent, and legislation passed by the 2006 legislature to exempt machinery and equipment will phase out about half or that.

Public utility property, assessed by the state, has declined from 17.6 percent to 10.3 percent, and motor vehicles from 14.2 to 11.0 percent.

Some of these changes may be due to administration. Real estate is assessed under strict guidelines, and the quality of assessment, except agricultural land, is measured by statistical analysis that shows that appraised values are very close to market value. Public utility valuations are not subject to the same independent check as are locally assessed property, and several appraisers express the opinion that this property is currently undervalued. The alternative valuation methods used for automobiles appear to produce results similar to those that would be produced by market value appraisal, but assessed value has been reduced from 30 percent to 20 percent in the period.

The data show that the real estate exempted by original constitutional exemptions for government, religious, and similar property are equal to about 15 percent of the statewide real estate appraised value and have been decreasing in comparison to appraised value of

taxable real estate. Government and educational property make up the largest part of this exempt property. Religious property represents just over 14 percent of the total exempt property.

The appraised value of local option IRB and EDX exemptions make up just less than 2 percent of the appraised value of all property. In lieu payments offset about one-fourth of this.

Most of the exempt property listed in the last four groups of Table 5 is personal property that is not usually valued or even listed by appraisers. However, it is clear from Figure 1 and Appendix A that the number of exemptions have increased rapidly and are responsible for much of the relative decline in the importance of personal property in the tax base.

Although mathematical projections have not been made, it is clear that exemptions, mostly in the name of economic development, have had impacts on the nature of the property tax that should be seriously discussed. Is a real estate tax a suitable means of financing the local government structure that exists in Kansas? If not, what changes should be made in local government or the financing mechanism?

It would be difficult to reverse the trend toward dependence on locally assessed real estate as a source of local finance. It might be possible to “tighten up” exemption provisions by legislative or administrative changes. Appraisers have pointed out several examples (see Appendix C). Oil wells stop producing at just under the five-barrel limit, extremely valuable land is taxed as agricultural land, heavy equipment used for a few days in agricultural use is exempted as farm machinery, and many tools are reported as costing just under \$400.

Administration could be simplified by exempting all personal property, with the possible exception of motor vehicles and mineral interests, from property taxation. This would further increase the burden on residential and business real property that could discourage economic development by increasing living costs in Kansas.

The burden on the property tax could be lightened by providing more state funds to local governments or expanding the power of local government to levy non-property taxes. Unfortunately it would be difficult or impossible for the state wisely to allocate funds to 3,663 local government and non-property taxes are not feasible for the smallest governments.

Consolidation of local governments or the creation of regional taxing districts are possible, but would require many changes and would encounter much opposition.

Appendix A

**Appendix A - Table 1
Chronology of Constitutional Departures from Uniform and Equal Taxation of Property
1859 to present**

Date	Nature of Exemption
1859	exemption of property used exclusively for State, county, and municipal purposes
1859	exemption of property used exclusively for literary, educational, scientific, religious, benevolent, and charitable purposes
1859	exemption of personal property to the amount of at least \$200 for each family
1924	mineral products exempted from uniform and equal assessment and taxation
1924	money, mortgages, notes, and other evidence of debt exempted from uniform and equal assessment and taxation
1964	exemption of all household goods and personal effects not used in the production of income
1974	motor vehicles exempted from uniform and equal assessment and taxation
1976	land devoted to agricultural use exempted from uniform and equal assessment and taxation and authorized to be taxed on the basis of agricultural income or productivity
1986	exemption of merchants' inventories
1986	exemption of manufacturers' inventories
1986	exemption of farm machinery and equipment
1986	exemption of livestock
1986	grain exempted from uniform and equal assessment and taxation
1986	differential assessment for residential real estate, ie., 12 percent of appraised value
1986	differential assessment for commercial and industrial equipment, ie., 20 percent of appraised value
1986	differential assessment for commercial and industrial real estate, ie., 30 percent of appraised value
1986	differential assessment for agricultural land, ie., 30 percent of appraised value
1986	differential assessment for mineral leaseholds, ie., 30 percent of appraised value
1986	differential assessment for public utilities properties, ie., 30 percent of appraised value
1986	exemption for up to ten years of land, buildings, and personal property used exclusively by a business for the purpose of manufacturing, research and development, or storage of goods traded in interstate commerce, if authorized by the board of county commissioners of any county or the governing body of any city
1992	reduced differential assessment for residential real estate, ie., from 12 to 11.5 percent of appraised value
1992	differential assessment for real property owned by nonprofit organization, ie., 12 percent of appraised value
1992	reduced differential assessment for commercial and industrial real estate, ie., from 30 to 25 percent of appraised value
1992	increased differential assessment for public utilities properties, ie., from 30 to 33 percent of appraised value
1992	differential assessment for low production mineral leaseholds, ie., 25 percent of appraised value
1992	increased differential assessment for commercial and industrial machinery and equipment, ie., from 20 to 25 percent of appraised value

Appendix A - Table 2
Chronology of Constitutional and Statutory Departures from Uniform
and Equal Taxation of Business Property
1924 to Present

Year	Authority	Nature of Exemption
1924	Kansas Constitution Article 11, section 1	mineral products exempted from uniform and equal assessment and taxation
1924	Kansas Constitution Article 11, section 1	money, mortgages, notes, and other evidence of debt exempted from uniform and equal assessment and taxation
1961	K.S.A. 12-1740 et seq.	city facilities developed for industrial and manufacturing purposes, financed with industrial revenue bonds, and leased to any person, firm, or corporation
1974	Kansas Constitution Article 11, section 1	motor vehicles exempted from uniform and equal assessment and taxation
1975	K.S.A. 79-201f	personal property moving in interstate commerce, personal property shipped into and stored for not more than five years in Kansas, and goods produced or processed and stored in the state with the requirement that at least 30 percent of goods in storage are shipped to destinations out of state, or stored in warehouses or storage areas prior to shipment out of state
1981	K.S.A. 12-1740 et seq.	county facilities developed for industrial and manufacturing purposes, financed with industrial revenue bonds, and leased to any person, firm, or corporation
1982	K.S.A. 79-201k	aircraft used at least 80 percent of total use to earn income for the owner in the conduct of the owner's business or industry or used such that all aircraft costs are deductible for federal income taxes
1986	K.S.A. 79-215	personal property held for sale or display at a fair, exposition, trade show, auction, bazaar, flea market, or convention
1986	K.S.A. 79-219	hand tools used exclusively by a mechanic in the construction and repair of machinery and equipment, including motor vehicles
1986	Kansas Constitution Article 11, section 1	Merchants' inventories
1986	Kansas Constitution Article 11, section 1	manufacturers' inventories
1986	Kansas Constitution Article 11, section 1	Differential assessment for commercial and industrial equipment, ie., 20 percent of appraised value
1986	Kansas Constitution Article 11, section 1	Differential assessment for commercial and industrial real estate, ie., 30 percent of appraised value
1986	Kansas Constitution Article 11, section 1	Differential assessment for mineral leaseholds, ie., 30 percent of appraised value
1986	Kansas Constitution Article 11, section 1	Differential assessment for public utilities properties, ie., 30 percent of appraised value
1986	Kansas Constitution Article 11, section 13	exemption for up to ten years of land, buildings, and personal property used exclusively by a business for the purpose of manufacturing, research and development, or storage of goods traded in interstate commerce, if authorized by the board of county commissioners of any county or the governing body of any city
1988	K.S.A. 79-201o	hand tools and hand tool boxes used exclusively by a mechanic or tradesperson in the construction industry
1988	K.S.A. 79-201p	motor vehicles held as inventory for sale by a motor vehicle dealer
1988	K.S.A. 79-219	hand tool boxes used exclusively by a mechanic in the construction and repair of machinery and equipment, including motor vehicles

1990	K.S.A. 79-221	certain land, buildings, and personal property leased for economic development purposes pursuant to article 11, section 13, of the Kansas Constitution
1992	K.S.A. 79-201s	property owned by an airport authority and leased for aviation related purposes
1992	K.S.A. 79-201t	oil leases with average daily production of two barrels or less per well or three barrels or less per well with a completion depth of 2,000 feet or more
1992	Kansas Constitution Article 11, section 1	differential assessment for low production mineral leaseholds, ie., 25 percent of appraised value
1992	Kansas Constitution Article 11, section 1	reduced differential assessment for commercial and industrial real estate, ie., from 30 to 25 percent of appraised value
1992	Kansas Constitution Article 11, section 1	increased differential assessment for public utilities properties, ie., from 30 to 33 percent of appraised value
1992	Kansas Constitution Article 11, section 1	increased differential assessment for commercial and industrial machinery and equipment, ie., from 20 to 25 percent of appraised value
1995	K.S.A. 79-201w	machinery, equipment, materials, and supplies costing \$250 or less at retail when new and being used exclusively for business or by an entity not subject to Kansas income taxation
1995	K.S.A. 79-5105	motor vehicles to be assessed at a reduced rate, phased over five years from 30 percent of classified value in 1995 to 20 percent of classified value in 2000, and thereafter
1998	K.S.A. 79-201t	oil leases with average daily production of three barrels or less per well or five barrels or less per well with a completion depth of 2,000 feet or more
1999	K.S.A. 79-201, Eleventh	real property used predominantly as a location for facilities that utilize renewable energy resources and technologies, including wind, solar, thermal, photovoltaic, biomass, hydropower, geothermal, and landfill gas, to generate electricity and tangible personal property comprising such facilities
2001	K.S.A. 79-256-259	certain electric generation facilities and pollution control devices of independent power producers and of public utilities placed in service after 2000, for six to twelve years
2002	K.S.A. 79-201w	machinery, equipment, materials, and supplies costing \$400 or less at retail when new and being used in the conduct of an owner's business or by an entity not subject to Kansas income taxation
2005	K.S.A. 79-201, Twelfth	personal property used predominantly to collect, refine, or treat landfill gas or transport landfill gas to a transmission pipeline and the landfill gas produced
2006	H.B. 2583	commercial and industrial, railroad, and telecommunications machinery and equipment acquired after June 30, 2006

Appendix A - Table 3
Chronology of Constitutional and Statutory Departures
from Uniform and Equal Taxation of Agricultural Property
1975 to Present

Year	Authority	Nature of Exemption
1975	K.S.A. 79-201e	for five years the increased valuation of land reclaimed to productive use after surface mining operations conducted prior to 1969
1975	K.S.A. 79-201g	land contiguous to and a part of a tract of land on which a dam or reservoir has been constructed and certified by the chief engineer under two statutory standards: 1) the increased value of real estate limited by the lesser of \$5,000 or 40 percent of assessed value for a period of ten years; or 2) twice the value of land, easements, or right-of-way donated to the state or any state agencies or subdivisions for a period of twenty years
1976	Kansas Constitution Article 11, section 12	agricultural land exempted from uniform and equal taxation and assessment and valued on the basis of agricultural income or productivity
1978	K.S.A. 79-201d	hay and silage
1978	K.S.A. 79-201d	farm storage and drying equipment eligible for certain federal loans for years, 1977-79
1982	K.S.A. 79-201d	farm storage and drying equipment for any year after 1977
1982	K.S.A. 79-201j	machinery and equipment used exclusively in farming and ranching
1985	K.S.A. 79-201d	certain used farm storage and drying equipment
1985	K.S.A. 79-201j	machinery and equipment used in farm or ranch work for hire
1986	Kansas Constitution Article 11, section 1	farm machinery and equipment
1986	Kansas Constitution Article 11, section 1	Livestock
1986	Kansas Constitution Article 11, section 1	grain exempted from uniform and equal taxation and assessment
1986	Kansas Constitution Article 11, section 1	differential assessment of agricultural land appraised at use-value, ie., 30 percent of appraised value
1988	K.S.A. 79-201n	all grain except after grain has been milled or processed
1992	K.S.A. 79-201j	machinery and equipment used exclusively in aquaculture
1992	K.S.A. 79-201j	machinery and equipment used exclusively in Christmas tree farming
1997	K.S.A. 79-201j	machinery and equipment used in the operation of a feed lot
1997	K.S.A. 79-201j	machinery and equipment used regularly in aquaculture
1997	K.S.A. 79-201j	machinery and equipment used regularly in Christmas tree farming
1999	K.S.A. 79-201j	machinery and equipment comprising a natural gas distribution system owned and operated by a nonprofit public utility predominately operated to provide fuel for irrigation of land devoted to agricultural use
2000	K.S.A. 79-201j	greenhouse not permanently affixed to real estate and used for nursery operations
2001	K.S.A. 79-201d	farm storage and drying equipment no longer required to be used exclusively for storing and drying agricultural products

Appendix A - Table 4
Chronology of Constitutional and Statutory Departures
from Uniform and Equal Taxation of Individual Real and Personal Property
1861 to Present

Year	Authority	Nature of Exemption
1861	Kansas Constitution Article 11, section 1	Personal property to the amount of at least \$200 for each family
1964	Kansas Constitution Article 11, section 1	household goods and personal effects not used in the production of income from whatever source
1974	Kansas Constitution Article 11, section 1	motor vehicles exempted from uniform and equal assessment and taxation
1975	K.S.A. 79-201c	wearing apparel and grave sites purchased by individuals within cemeteries
1977	K.S.A. 79-201c	lands used exclusively as graveyards
1982	K.S.A. 79-5107	not more than two motor vehicles owned by a resident who is in the full-time U.S. military service and absent from the state due to military orders and such vehicle is outside of the state on the date of registration
1986	Kansas Constitution Article 11, section 1	differential assessment for residential real estate, ie., 12 percent of appraised value
1987	K.S.A. 79-220	antique aircraft, defined as aircraft 30 years old or older, used exclusively for recreation or display
1988	K.S.A. 79-201c	household goods and personal effects when used for licensed home day care
1992	Kansas Constitution Article 11, section 1	increased differential assessment for residential real estate, ie., from 12 to 11.5 percent of appraised value
1994	K.S.A. 79-5121	recreational vehicle owned by a resident who is in the full-time U.S. military service and absent from the state due to military orders and such vehicle is outside of the state on the date of registration
1995	K.S.A. 79-5105	motor vehicles to be assessed at a reduced rate, phased over five years from 30 percent of classified value in 1995 to 20 percent of classified value in 2000, and thereafter
1997	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax years 1997 and 1998
1998	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax year 1999
1999	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax year 2000
2001	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax years 2001 and 2002
2003	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax years 2003 and 2004
2004	K.S.A. 79-201c	household goods and personal effects when used for bed and breakfast
2004	K.S.A. 79-5107	not more than two motor vehicles owned by a resident who is in the full-time U.S. military service and who is mobilized or deployed on the date of registration
2005	K.S.A. 79-201x	the first \$20,000 of appraised value for residential property exempted from statewide school mill levy, for tax years 2005 and 2006

Appendix B

2005 Exemptions by County					
	Total Appraised Value (Excludes Motor Vehicles)	Exempt Real Property (Appraised Value)	Total EDX and IRB	Total Exempt Value*	Exempt as a Percent of Total
Stevens	\$ 1,260,721,115	\$ 32,616,668	\$ 1,144,111	\$ 33,760,779	2.59%
Haskell	776,119,470	26,836,380	0	26,836,380	3.46
Osborne	153,257,774	5,411,400	0	5,411,400	3.53
Kearny	1,012,433,371	35,927,757	0	35,927,757	3.55
Barber	306,661,637	11,279,190	458,670	11,737,860	3.68
Stanton	374,589,820	15,377,556	0	15,377,556	4.11
Grant	1,280,370,368	53,085,380	0	53,085,380	4.15
Ness	212,628,215	9,960,147	870	9,961,017	4.68
Morton	575,067,938	35,389,900	0	35,389,900	6.15
Meade	404,573,774	25,013,994	6,239,430	31,253,424	6.18
Johnson	49,053,076,566	3,100,305,334	1,177,571,561	4,277,876,895	6.32
Wallace	118,676,108	7,544,270	0	7,544,270	6.36
Hamilton	279,934,199	18,088,264	0	18,088,264	6.46
Jewell	144,191,550	9,334,550	0	9,334,550	6.47
Comanche	159,606,380	10,846,089	0	10,846,089	6.80
Coffey	1,566,616,280	108,359,643	0	108,359,643	6.92
Linn	722,676,727	49,996,599	0	49,996,599	6.92
Harper	280,116,532	19,660,697	3,473,292	23,133,989	7.02
Pottawatomie	1,603,726,615	114,986,077	4,894,351	119,880,428	7.17
Wabaunsee	365,730,442	26,492,995	4,075,789	30,568,784	7.24
Republic	226,152,430	17,371,370	0	17,371,370	7.68
Rush	157,838,062	12,163,530	6,047,170	18,210,700	7.71
Edwards	182,387,287	14,059,800	2,317,100	16,376,900	7.71
Sheridan	149,528,494	11,676,180	0	11,676,180	7.81
Seward	1,234,197,536	97,180,690	18,285,540	115,466,230	7.87
Greeley	137,388,922	10,906,538	0	10,906,538	7.94
Ottawa	294,194,312	23,990,040	1,322,325	25,312,365	8.15
Lincoln	158,907,302	12,967,230	58,276	13,025,506	8.16
Chase	192,153,340	15,719,080	0	15,719,080	8.18
Chautauqua	115,189,497	9,821,100	0	9,821,100	8.53
Cherokee	747,521,220	64,817,690	12,728,210	77,545,900	8.67
Finney	2,215,087,199	194,936,750	5,071,607	200,008,357	8.80
Cheyenne	179,887,766	15,844,768	0	15,844,768	8.81
Kiowa	250,322,873	23,315,080	0	23,315,080	9.31
Hodgeman	133,508,125	12,444,630	0	12,444,630	9.32
Washington	247,213,294	24,345,098	0	24,345,098	9.85
Sumner	952,169,268	94,103,572	1,727,270	95,830,842	9.88
Miami	2,169,542,299	221,970,151	559,930	222,530,081	10.23
Lane	130,923,053	13,493,889	0	13,493,889	10.31
Scott	325,122,527	33,664,200	0	33,664,200	10.35
Gray	324,340,712	33,624,820	1,016,770	34,641,590	10.37

2005 Exemptions by County					
	Total Appraised Value (Excludes Motor Vehicles)	Exempt Real Property (Appraised Value)	Total EDX and IRB	Total Exempt Value*	Exempt as a Percent of Total
Rice	\$ 450,497,209	\$ 46,878,155	\$ 13,993,409	\$ 60,871,564	10.41%
Pratt	482,501,643	50,838,275	1,151,250	51,989,525	10.54
Gove	170,323,235	18,066,458	30,864,960	48,931,418	10.61
Wichita	143,445,299	15,384,850	0	15,384,850	10.73
Greenwood	280,560,690	30,459,432	1,546,250	32,005,682	10.86
Russell	343,177,810	37,464,120	15,521,958	52,986,078	10.92
Stafford	265,822,144	29,662,578	551,300	30,213,878	11.16
Rooks	258,792,417	28,883,836	2,261,128	31,144,964	11.16
Graham	170,620,231	19,144,220	0	19,144,220	11.22
Elk	105,020,263	11,806,590	1,260,584	13,067,174	11.24
Wilson	362,640,293	41,270,407	2,096,850	43,367,257	11.38
Logan	182,203,652	21,366,660	0	21,366,660	11.73
Marshall	440,774,432	51,790,860	0	51,790,860	11.75
Kingman	459,422,811	55,720,690	0	55,720,690	12.13
Thomas	408,694,137	49,827,740	2,840,890	52,668,630	12.19
Rawlins	133,960,535	16,526,750	0	16,526,750	12.34
Dickinson	789,466,640	98,540,446	17,013,971	115,554,417	12.48
Franklin	1,134,348,920	142,336,150	60,632,628	202,968,778	12.55
Woodson	139,252,149	17,517,116	127,100	17,644,216	12.58
Cloud	348,572,478	44,811,790	7,894,966	52,706,756	12.86
Trego	171,648,491	22,253,610	0	22,253,610	12.96
Anderson	366,450,915	47,728,475	421,048	48,149,523	13.02
Sedgwick	23,211,937,167	3,026,279,240	871,748,660	3,898,027,900	13.04
Nemaha	419,737,875	55,185,780	4,919,620	60,105,400	13.15
Morris	305,647,217	40,409,830	44,770	40,454,600	13.22
Smith	160,377,589	21,559,228	748,890	22,308,118	13.44
Reno	2,758,465,384	381,731,010	19,284,650	401,015,660	13.84
Doniphan	340,965,971	47,222,402	5,131,100	52,353,502	13.85
Brown	430,244,446	59,658,146	1,837,965	61,496,111	13.87
Mitchell	286,004,650	40,257,595	1,235,717	41,493,312	14.08
Osage	756,382,422	108,084,365	0	108,084,365	14.29
Sherman	304,999,726	44,736,670	0	44,736,670	14.67
McPherson	1,668,857,682	246,692,086	66,560,084	313,252,170	14.78
Wyandotte	6,827,202,634	1,012,166,969	201,417,648	1,213,584,617	14.83
Clark	152,273,841	22,800,170	0	22,800,170	14.97
Labette	656,363,219	98,777,560	4,428,000	103,205,560	15.05
Phillips	220,751,723	33,440,913	529,720	33,970,633	15.15
Saline	2,935,150,540	445,484,099	31,508,486	476,992,585	15.18
Butler	2,921,146,142	445,801,580	22,726,518	468,528,098	15.26
Allen	435,657,086	67,025,697	11,870,710	78,896,407	15.38
Cowley	1,240,380,729	194,095,480	80,038,776	274,134,256	15.65
Clay	335,293,369	53,674,725	196,000	53,870,725	16.01
Ford	1,225,146,109	196,608,264	50,877,623	247,485,887	16.05
Shawnee	9,215,183,045	1,518,653,660	147,270,125	1,665,923,785	16.48

2005 Exemptions by County					
	Total Appraised Value (Excludes Motor Vehicles)	Exempt Real Property (Appraised Value)	Total EDX and IRB	Total Exempt Value*	Exempt as a Percent of Total
Lyon	\$ 1,334,680,748	\$ 226,186,430	\$ 79,914,795	\$ 306,101,225	16.95%
Marion	550,483,017	93,390,650	4,539,122	97,929,772	16.97
Douglas	7,095,504,243	1,207,841,310	33,775,891	1,241,617,201	17.02
Jefferson	898,112,615	154,273,833	1,650,242	155,924,075	17.18
Ellis	1,590,066,410	283,904,690	5,090,280	288,994,970	17.85
Crawford	1,357,194,835	244,322,030	17,227,201	261,549,231	18.00
Decatur	148,673,990	29,151,510	0	29,151,510	19.61
Montgomery	1,192,901,587	240,852,550	106,254,071	347,106,621	20.19
Geary	841,168,643	172,047,028	40,528,224	212,575,252	20.45
Atchison	674,173,091	137,941,791	7,209,602	145,151,393	20.46
Barton	1,064,683,236	218,482,731	4,561,624	223,044,355	20.52
Harvey	1,425,949,057	299,410,467	43,583,336	342,993,803	21.00
Neosho	522,816,287	114,052,800	94,808,062	208,860,862	21.82
Pawnee	257,716,234	59,301,729	0	59,301,729	23.01
Bourbon	505,818,136	117,822,750	3,969,695	121,792,445	23.29
Norton	194,646,689	47,108,771	1,000,862	48,109,633	24.20
Ellsworth	271,686,723	74,661,980	1,515,280	76,177,260	27.48
Riley	2,560,362,264	967,434,586	12,303,230	979,737,816	37.79
Leavenworth	3,556,187,764	1,565,041,710	9,458,190	1,574,499,900	44.01
Jackson	489,524,546	218,030,505	0	218,030,505	44.54
Statewide	162,123,065,474	20,204,813,624	3,394,935,333	23,599,748,957	12.46

Source: *Statistical Report of Property Assessment and Taxation, 2005*

* Does not include exempt property that is not appraised (mostly personal property).

Appendix C

Appraisers' Responses to Questionnaire

Twenty-nine County Appraisers responded to an open-ended questionnaire about property tax exemptions in Kansas. They provided the researchers with a local perspective on exemptions from those engaged in the day-to-day administration of property tax laws.

In response to a question about the cost of administering exemptions, few could provide exact numbers, but several provided estimated hours spent or costs per exemption. It is not possible to compute total costs from these data, but it is clear that IRB and EDX exemptions account for much of the costs. Tax increment financing is used in only a few counties, but it, especially the neighborhood revitalization program, is clearly troublesome and expensive to administer. Several appraisers pointed out that other local officers, especially county clerks, also have administrative duties. Some counties noted problems with certain kinds of property. One county with much oil property reported that the low production exemption was difficult to administer and that companies manipulated production to evade taxation.

IRB and EDX exemptions are costly and time consuming because they require a detailed application that includes information that must be verified or cross-checked. Yearly follow-ups may require separating property exempted at several different times. The appraiser from one large county said:

...those exemptions authorized through Industrial Revenue Bond Finance are more time consuming to administer, such as [names omitted]. Each IRB and EDX agreement is unique with no standardization in the agreements. A standardization process and agreement would greatly simplify the administration of the abatements...

.....

The above examples are more difficult due to multiple BOTA orders, which authorize the abatement of multiple parcels spread over several ten-year term leases. Additionally, some abatements have payments in lieu of taxes which vary from year to year.

In addition, some were critical of the program, saying that most IRB and EDX properties would have been built without the exemption, and that many beneficiaries of these exemptions fail to provide the jobs they promise.

Many counties have no tax increment financing and some appraisers said they did not know what it was, but most of those who use it found it costly and difficult to administer. Almost all of the counties using the neighborhood revitalization provisions report that program is costly to administer and responded "yes" to the question, "Is the exemption unfair or abused?" One county reported that an entire city had been designated as a revitalization district, and another stated that many new houses benefited and that the program was unfair to other homeowners.

The most frequent response to a question about exemptions that were unfair or abuses was “farm machinery.” Many reported that the farm machinery exemption was given to expensive equipment that was used mainly for other purposes.

Several appraisers thought it was unfair to exempt independent living facilities because they were associated with retirement or nursing homes. There were some complaints about schools or colleges “using tax dollars to buy property and take it off the tax roll.”

Other trouble spots identified by one or more appraiser included wind farms, airplanes, watersheds, and religious organizations that claim exemptions for property used in commercial operations or improperly claim residential properties as parsonages.

In response to a question, “Are there kinds of property not exempt that should be,” most answered “No” and one added exclamation marks. Another said that he had testified in favor of expanding military exemptions. One other thought property in downtowns should be given a tax break and one expressed sympathy for the “baby-boomers” who would be faced with rising taxes, medical, and other costs, but made no specific suggestion. One suggested the exemption of golf-carts because they were hard to find and two suggested that since most personal property is exempt it all should be.

Appendix D

Basis for Total Estimated Market Value of Real and Personal Property in Kansas*

	Source
Current Tax Base	Table 2 on assessed value
Classification	Table 2 at estimated full market value less assessed value
Exempt Real Estate	Table 9; estimated USD general fund exempt value (first \$20,000)
Untaxed Agricultural Value:	
Farm property less full value ag use	Table 12 estimated market value less ag use value at full value reported in Table 2
Untaxed Agricultural Exemptions:	
Farm machinery & Equipment	USDA, 2002 Census of Agriculture, Table 44, Estimated market value of machinery and equipment, Kansas
Livestock: cattle & calves	USDA, Agricultural Statistics 2005, Table 7-3, All Cattle and Calves, Total Value, Kansas
Livestock: hogs & pigs	USDA, Agricultural Statistics 2005, Table 7-26, Hogs and Pigs..., Total Value, Kansas
Livestock: Lamb, Ewe & Ram	USDA, Agricultural Statistics 2005, Table 7-43, Breeding Sheep..., Number, Kansas; Table 7-44, Average Price per 100 pounds; Estimated Weights
Grain & Wheat	USDA, Agricultural Statistics, 2005: Table 1-10, Wheat, Value of Production, Kansas; Table 1-4-, Corn for Grain, Value of Production, Kansas; Table 1-50, Oats, Value of Production, Kansas; Table 1-56, Barley, Value of Production, Kansas; Table 1-65, Sorghum grain, Value of Production, Kansas; Table 2-3, Cotton, Value of Production, Kansas
Untaxed Business Real and Personal Property:	
EDX & IRB	Table 11
Dealer Inventory	The State of Texas taxes as "special inventory" the inventory value of motor vehicle, boat, heavy equipment, and manufactured housing dealers, and the state total value assigned for 2005 is reported by Comptroller of Public Accounts, Property Tax Division (2/3/06); 13% of that amount is estimated for Kansas value using a 13% ratio of Texas value given two relevant ratios -- the ratio of the number of Kansas to Texas licensed drivers in 2004 as reported in USDOT Highway Statistics (13.6%), and the ratio of the number of Kansas to Texas private and commercial vehicles registered in 2004 as reported by Bureau of Transportation Statistics (14%).

Manufacturing component parts	See Figure 17 in Dr. John Wong's report, "Sales Tax Erosion in Kansas" that is another part of this study conducted for KDOR.
Freeport Exemption	West Virginia estimate of inventory property stored while in tansit in Tax Expenditure Study (January 2006); 1.4x that amount based on differences in state population and state personal income (2000)
Retail Sales Inventory	US Dept. of Commerce, 2002 Economic Census, Retail Trade, Kansas, Table 1, Sales, for categories 4413, 442,443,444,4461,448,451,452,453,4541,4542 (excludes businesses such as motor vehicle and boat dealers, food & beverage stores, gas stations, direct selling & fuel dealers); adjusted by a 1.25 estimated inventory to sales ratio
Untaxed Individual Personal Property:	
Household Goods	Residential Full Value in Table 2, times (x) unpublished PVC data on improvements to land as percentage of total assessed value (83.4% in 2005) x estimated ratio (50%) of house value that is attributed to household goods for insurance purposes
Untaxed Intangibles:	
Business	Based on national estimate at 5.6% of commercial and industrial real property
Household and Nonprofits	Based upon percentage of intangible to tangible assets in Balance Sheet of Households and Nonprofit Organizations in National Income and Product Accounts for 2002 (Table B.100) x the total non-business tangible property value in Kansas

*NOTE: These estimates by the WSU Kansas Public Finance Center (316-978-6332) are a rough estimate at best since this type of report has not been prepared before. Suggestions on alternative estimating techniques, and notice of any errors or omissions, would be appreciated. Report date: September 13, 2006.