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To: House Taxation Committee
Date: March 6th, 2018
Subject: Opposition to HB 2740.

Honorable Chairman Johnson and members of the House Taxation Committee:

REALTORS® believe that the private ownership of real property is the foundation of our nation's free enterprise system and we adamantly oppose any governmental actions that discourage or diminish the ability and capacity of Kansas citizens to own private property, including excessive property taxation. On behalf of the Kansas Association of REALTORS® (KAR), thank you for the opportunity to testify in opposition to HB 2740, which will produce a nearly \$600-million-dollar property tax increase on Kansas property owners.

KAR represents over 9,500 members involved in both residential and commercial real estate and has advocated on behalf of the state's property owners for over 95 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

REALTORS® realize the importance of quality public schools to the local real estate market. The quality of education in our schools has proven to be a driving force in the growth or demise of our residential and business communities. It is these communities, not merely the homes within them, which are bought and sold. REALTORS® support responsible funding for public schools.

However, we believe that real estate is already burdened with an excessive share of the constantly increasing cost of state and local government. HB 2740 would exacerbate the property tax burden that our Kansas homeowners and business owners are experiencing.

We believe tax revenues dedicated to schools should be equitably collected from a variety of sources and encourage the consideration of the negative impact to the economy with an excessive increase in the state mandated mill levy. Furthermore, any discussion of increasing the state mandated mill levy should be accompanied by a discussion of reducing the local levy authority that school districts have.

The tax increase contemplated by HB 2740 would be severe to residential, agriculture, and commercial property. Given that others appearing in opposition today will detail the specific consequences of a property tax increase of this magnitude on our farmers and business owners, KAR wishes to highlight the impact to residential property owners. In any event, we join in others' testimony on the negative impact to commercial and agriculture property owners.

Homeownership is the cornerstone of the American Dream and deserves a preferred place in our system of values as it contributes to community responsibility; business, civic, and economic stability; family security and quality of life. As such, REALTORS® are hypersensitive to policies that could prevent Kansans from affording a home and participate in the benefits of property ownership. The Kansas Legislature must consider the negative impact to the housing market associated with a property tax increase of this magnitude.

The Kansas real estate market depends on fluidity at all price points. For every purchase of a home, there is often the sale of the buyer's exiting home. One home purchase at the top of the market, can result in several subsequent home purchases through the housing market, including a first-time homebuyer. The first-time homebuyer depends on an adequate inventory of affordable homes in their price range. Simple economics tells us that as the supply of housing shrinks, price goes up on the existing inventory. In a tight inventory that communities across Kansas are experiencing, the affordability concern will rise for many Kansans looking to purchase a home for their family.

This property tax increase will affect all Kansas residential property. As the valuation of property increases, so does the resulting property tax bill (assuming no decrease to mill levy). Our concern is that a property tax increase such as this, coupled with the other increasing costs in homeownership, will give would-be buyers and sellers of homes pause before considering moving and either stay in their home longer or avoid a home purchase all together. The consequence is fewer homes on the market, prices will increase, and more Kansans will be priced out of home ownership.

Adding to the affordability problem is when considering whether to approve financing for a homebuyer, lending institutions take into consideration a family's income and compare that to the total of the principle, interest, taxes, and insurance (PITI) payment and use this to determine whether the family will be able to afford to purchase the home. Across Kansas, we have seen appreciation in home prices. Furthermore, interest rates are starting to rise from their historic lows of the Great Recession. With increasing home prices, valuations for property tax purposes are also on the rise. It is reasonable to assume that insurance rates will also rise as home prices appreciate. With the PITI increasing, some Kansans will simply be priced out of the housing market. An increase in the property tax portion of PITI that HB 2740 seeks to do will only make this affordability issue worse.

Furthermore, the Kansas economy cannot afford a reduction in home sales. Kansas benefits every time a home is sold. According to the National Association of REALTORS® (NAR) December 2016 "Economic Impact of Real Estate Activity: Kansas", every time a house is sold in Kansas, additional expenditures on consumer items such as furniture, appliances, and remodeling are estimated to be \$4,572. The estimate for the income generated for real estate related industries is \$15,624. There is also an economic "multiplier" effect when a home is sold in Kansas. This effect is caused by greater spending in the community at restaurants, sporting events, and entertainment. NAR estimates the multiplier effect for a Kansas home sale to be \$9,694. Furthermore, home sales induce home construction. Typically, for every 1 new home constructed, there are 8 existing home sales. Therefore, for each existing home sale, 1/8 of a new home's value is added to the Kansas economy which is estimated to be \$21,700 for Kansas. The total economic impact of a single home sale in Kansas is estimated to be over \$50,000 of income.

As one can see, Kansas benefits from a robust housing market at all price points. The economic impact of one home sale is a significant benefit for Kansas and its local communities. Therefore, the Kansas Legislature,

should not consider a tax policy, such as \$600-million-dollar property tax increase, which would result in fewer homes being bought and sold and the loss of a cascade of economic benefits for the Kansas economy.

For the committee's consideration, attached is a document that shows the 18 mill property tax increase for homeowners in various Kansas markets. The valuation is taken from the average sale price for homes in the 2018 Kansas Housing Forecast by the Wichita State Center for Real Estate (summary also attached).

For all of the reason stated herein, KAR respectfully request that the House Taxation Committee reject the provisions of HB 2740.

Thank you for your consideration of our testimony. I am happy to stand for questions at the appropriate time.

Respectfully submitted,

A handwritten signature in black ink that reads "Patrick Vogelsberg". The signature is written in a cursive, flowing style.

Patrick Vogelsberg, JD
Vice President of Governmental Affairs
Kansas Association of REALTORS®

Estimated property tax increases for Kansas and various communities from HB 2740's 18 mill increase based upon average sale prices in 2016.¹

Kansas	
Average Sale Price	\$192,674.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$172,674.00
Assessment for Res. Property	11.50%
Assessed Value	\$19,857.51
Mill Rate	0.018
Property Tax Increase	\$357.44

Wichita	
Average Sale Price	\$157,272.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$137,272.00
Assessment for Res. Property	11.50%
Assessed Value	\$15,786.28
Mill Rate	0.018
Property Tax Increase	\$284.15

Kansas City	
Average Sale Price	\$214,363.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$194,363.00
Assessment for Res. Property	11.50%
Assessed Value	\$22,351.75
Mill Rate	0.018
Property Tax Increase	\$402.33

Lawrence	
Average Sale Price	\$213,734.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$193,734.00
Assessment for Res. Property	11.50%
Assessed Value	\$22,279.41
Mill Rate	0.018
Property Tax Increase	\$401.03

Manhattan	
Average Sale Price	\$210,108.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$190,108.00
Assessment for Res. Property	11.50%
Assessed Value	\$21,862.42
Mill Rate	0.018
Property Tax Increase	\$393.52

Topeka	
Average Sale Price	\$142,170.00
\$20,000 Exemption	(\$20,000)
After Exemption	\$122,170.00
Assessment for Res. Property	11.50%
Assessed Value	\$14,049.55
Mill Rate	0.018
Property Tax Increase	\$252.89

¹ Based upon information from the 2018 Kansas Housing Market Forecast Series by the Wichita State Center for Real Estate.

	2013	2014	2015	2016	2017	2018
Kansas						
Total Home Sales	35,420	35,481	38,213	40,181	40,040	41,380
Building Permits	4,459	4,334	5,257	5,058	5,930	5,850
Home Price Appreciation	0.9%	3.2%	4.0%	5.3%	5.1%	5.2%
Sales Volume (in millions)	\$6,012	\$6,252	\$7,093	\$7,742		
Average Price	\$169,725	\$176,203	\$185,608	\$192,674		
Kansas City						
Total Home Sales	32,059	32,270	35,955	38,268	37,170	38,520
Building Permits	4,209	4,129	4,550	5,258	5,890	6,005
Home Price Appreciation	1.5%	4.3%	6.4%	5.9%	7.2%	6.6%
Sales Volume (in millions)	\$5,863	\$6,206	\$7,280	\$8,203		
Average Price	\$182,866	\$192,305	\$202,471	\$214,363		
Lawrence						
Total Home Sales	1,269	1,309	1,383	1,444	1,500	1,560
Building Permits	212	179	221	264	265	250
Home Price Appreciation	1.0%	0.9%	0.6%	7.3%	5.7%	4.4%
Sales Volume (in millions)	\$256	\$256	\$277	\$309		
Average Price	\$202,084	\$195,685	\$200,569	\$213,734		
Manhattan						
Total Home Sales	765	791	923	931	920	1,010
Building Permits	307	317	315	271	260	275
Home Price Appreciation	0.0%	3.8%	0.1%	7.0%	0.0%	3.2%
Sales Volume (in millions)	\$153	\$163	\$189	\$196		
Average Price	\$199,950	\$206,090	\$205,122	\$210,108		
Topeka						
Total Home Sales	2,677	2,745	2,963	3,235	3,180	3,200
Building Permits	270	262	302	301	285	270
Home Price Appreciation	0.0%	1.6%	2.0%	3.1%	3.6%	2.7%
Sales Volume (in millions)	\$346	\$346	\$401	\$460		
Average Price	\$129,162	\$126,164	\$135,240	\$142,170		
Wichita						
Total Home Sales	9,137	9,342	9,719	10,369	10,300	10,450
Building Permits	997	1,012	1,067	1,063	1,040	1,030
Home Price Appreciation	0.0%	2.7%	2.0%	5.6%	4.1%	3.7%
Sales Volume (in millions)	\$1,270	\$1,356	\$1,463	\$1,631		
Average Price	\$139,000	\$145,202	\$150,501	\$157,272		

FORECAST