

House Taxation Committee

Division of Property Valuation on the Legislative Post Audit Report

*Department of Revenue: Evaluating the Revenue Impact of Machinery and Equipment
Classification and Valuation*

February 20, 2013

Mr. Chairman, Members of the Committee, thank you for the opportunity to discuss the Legislative Post Audit Report Department of Revenue: *Evaluating the Revenue Impact of Machinery and Equipment Classification and Valuation*. The Department of Revenues response is included with the report but I would like to highlight a few items before standing for questions.

We agree with the Legislative Post Audit (LPA) conclusion that the majority of issues are limited to a small portion of the appraised property in Kansas and likely centered on items common to complex industrial property.

The following images depict the type of properties which appear to be the focus of the LPA review.









Recommendations of LPA:

The four specific recommendations of Item 1 of the Recommendations for Executive Action section of the report all fall under the direct supervision of the Division of Property Valuation.

1(a) “Review and update directives, guidance, and training to eliminate any conflicting or contradictory language concerning the classification or valuation of real and personal property.”

We had identified this as an area of emphasis prior to the audit for not only the classification and valuation of real and personal property, but for several of our guides, directives, manuals and training courses. We agree with this recommendation and are working to address this area.

1(b) “Create comprehensive guidance to document the expectations for the appraisal of complex manufacturing plants, including but not limited to guidance on applying the three-part test, the applicability of the state’s computerized mass appraisal system, options for contracting out appraisal work, and processes for when such properties are temporarily exempt.”

We agree with the recommendation for added guidance and instruction on the valuation of special use properties. This recommendation presents the greatest challenges but is likely the most critical. Special use properties create appraisal challenges for PVD, county and private appraisers. This too is an issue we have been discussing over the past year as we have worked on a new directive addressing Uniform Standards of Professional Appraisal Practice, (USPAP), and how to clarify and regulate the statutory requirement of Kansas appraisers to comply with USPAP.

USPAP contains a Competency Rule, which states in part that an appraiser must be competent to perform an appraisal assignment, acquire the necessary competency to perform the assignment or decline the assignment. Realistically, county appraisers do not have the option of declining the assignment, and contracting with private appraisal experts for special use properties when the cost of such appraisal expertise are not funded by their governing board. PVD does not have staff currently qualified to appraise all special use properties.

Potential solutions will likely require consultation with an appraisal firm or appraiser qualified to accept the assignment for the defined property group. Our future action may be defined by Legislative action this session, but an option we plan to explore is contracting with qualified appraisers to work with PVD staff to develop guides and training for county appraisers. The options are discussed in more detail in our response to LPA, but we do believe this approach may be the most cost efficient, allow the most input from taxpayers and counties and allow the most oversight from PVD of the process.

1(c) “Clarify requirements for reviewing annual personal property reports, particularly for properties at risk for missing or erroneously classifying property assets.”

We agree with this recommendation and will implement requirements with our Maintenance Specifications for County Appraisers which we are currently revising.

1(d) “Increase monitoring efforts to include more detailed reviews of county appraisers’ work. If the additional work requires more resources, the division should request applicable budget enhancements from the Legislature.”

We agree with this recommendation. The PVD field staff, the group primarily responsible for compliance reviews, has decreased in size more than any other section of PVD in recent years. We have already made internal moves to cross train staff to assist in this area, have made one internal move and will be moving another to our county compliance and assistance team this summer.

I do want to thank and recognize Roger Hamm, Deputy Director of PVD who has been our team lead in working with the LPA group, and the LPA team for the time and efforts they took to understand the situation at hand. This has been a valuable review for us and supports that we are moving in the proper direction on attempting to address several of the recommendations.