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## Division of Property Valuation

### DIRECTIVE #92-002 (Rev)

TO: County Appraisers  
SUBJECT: Substantial Compliance

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This directive is adopted pursuant to the provisions of K.S.A. 1994 Supp. 79-506, and shall be in force and effect from and after the Director's approval date.

The following criteria and standards shall be used for 1995 and subsequent years to determine whether a county is in substantial compliance with the statutory requirement to uniformly appraise real and personal property at its fair market value, as defined by K.S.A. 79-503a, and amendments thereto. In order to establish compliance or lack of compliance in each county, the Division of Property Valuation (PVD) shall conduct a ratio study as required by K.S.A. 79-1485 *et. seq.* PVD shall conduct a procedural audit in each county covering items deemed essential to establishing fair market value. PVD shall determine whether specific Kansas statutes pertaining to property taxation have been followed. Whenever sufficient valid sales within a single property subclass cannot be obtained for the ratio study, or whenever the confidence level for the subclass suggests the median ratio or coefficient of dispersion measure is unreliable, compliance shall be determined according to the procedural and statutory review.

#### CRITERIA AND STANDARDS

Any county achieving 75 to 100 points (as explained on page 3-6) shall be found in substantial compliance. Any county achieving 74 or less points shall be found in noncompliance and required to submit a detailed plan to correct areas of noncompliance.

A county in noncompliance may be audited on all property tax functions and responsibilities depending on the reason the county is found to be in noncompliance. An audit may be initiated if the county does not implement its approved plan and correct the area or areas in noncompliance. If a county is found to be in noncompliance in the same subclass in the next compliance period, a full audit shall be conducted. When a county is in noncompliance in the same subclass for two

consecutive years the Director may pursue all legal options, including, but not limited to, proceedings before the State Board of Tax Appeals and/or the removal of the county appraiser.

An Administrative Review designation shall be assigned to any county in which a subclass, as a whole, indicates compliance, but in which one or more stratifications (age or price by neighborhood) indicates a failure to meet the basic statistical standards for Ratio or Coefficient of Dispersion (COD). Counties subject to Administrative Review shall be required to submit a plan to correct the area or areas not meeting the basic statistical standards. Counties are reminded that administrative appeals to the Director and State Board of Tax Appeals are available.

Examples of points used for the measuring of compliance and the weighting of those points are found on the next four pages.

MEASURE OF COMPLIANCE:

<u>Measure</u>	<u>Points</u>
1. Statistical Measures Total Weight	50
a. Appraisal Level	25
b. Appraisal Uniformity	25
<p>The total of (a.) and (b.) shall be multiplied by the subclass weight for Commercial/Industrial and Residential.</p>	
2. Procedures	36
a. Reappraisal plan	4
b. Cost index	4
c. Sale file	4
d. Depreciation documentation	4
e. Income approach	4
f. Comparable sales approach	4
g. 25% maintenance reinspection	4
h. Land valuation model calibration	4
i. Final review process	4
3. Agricultural Use Valuation	2
4. Cadastral Mapping	2
5. Constitutional and Statutory Compliance Checklist	10
a. CVN's mailed and trend study published timely	2
b. Hearings conducted within statutory time frame	2
c. Certification to clerk timely	2
d. Personal property listed correctly	2
e. Retention of records	2
TOTAL	100

SUBCLASS WEIGHTING

The statistical compliance of "residential" and "commercial/industrial" subclasses shall be determined separately. Each subclass shall be weighted by its percentage of the combined appraised value of the two subclasses, as derived from the statistical abstract, to demonstrate the county's statistical compliance. These calculated weights shall vary from county to county and from year to year. If a 95% confidence interval can not be achieved with respect to the median ratio or coefficient of dispersion, the points assigned to the statistical measures for that subclass shall be omitted thereby establishing a new base of total possible points. The total points assigned to a county shall be divided by the adjusted base, total possible, and multiplied by 100 to arrive at the total points used to determine substantial compliance. This method adds more emphasis to the procedural review. The following is an example of the weighting procedure:

<u>SUBCLASS</u>	<u>APPRAISED VALUE</u>	<u>% OF APPRAISED</u>
RESIDENTIAL	\$250,000,000	84.7%
COMMERCIAL/INDUSTRIAL	\$45,000,000	15.3%
TOTAL APPRAISED VALUE	\$295,000,000	100.0%

<u>SUBCLASS</u>	<u>% OF APPRAISED</u>	<u>COMPLIANCE POINTS</u>	<u>WEIGHTED POINTS</u>
RESIDENTIAL	84.7%	50	42.4
COMMERCIAL/ INDUSTRIAL	15.3%	25 ( Ratio 88)	3.8
<u>STATISTICAL COMPLIANCE POINTS</u>			46.2

PROCEDURES	23.0
AGRICULTURAL USE VALUATION	0.0
CADASTRAL MAPPING	2.0
CONSTITUTIONAL / STATUTORY	10.0
<u>NON STATISTICAL COMPLIANCE POINT</u>	35.0
TOTAL COMPLIANCE POINTS	81.2

## I. STATISTICAL COMPLIANCE REVIEW

The following statistical review shall be used to establish whether the county's appraisal performance is in substantial compliance pursuant to Property Valuation Division statistical measures and Kansas statutes.

### A. APPRAISAL LEVEL:

The median ratio measure of central tendency must suggest the level of appraised value for a subclass of property falls between 90 and 110 percent.

If the median ratio does not suggest a ratio within the prescribed range, a confidence interval test shall be made to provide an indication of reliability. If, at the 95% confidence level, the subclass falls within the prescribed range, the appraisal level shall not be out of compliance.

### B. APPRAISAL UNIFORMITY:

The average deviation of ratios about the median appraisal level shall be measured by the coefficient of dispersion (COD). The COD measure must suggest a deviation of 20% or less for the *residential* subclass and the *commercial/industrial* subclass. If a subclass fails to meet these measures, a confidence interval test shall be performed on the COD. If the suggested range includes the maximum acceptable COD prescribed for the subclass at the 95% confidence level, appraisal uniformity shall not be out of compliance.

For example:

COD = 18% Confidence interval = 13-21%

This example would be considered in compliance because the COD is less than 20%. The confidence interval does suggest, however, there is a possibility the COD could actually be out of compliance due to imprecision in the statistical measure.

COD = 30% Confidence interval = 22-38%

This example is out of compliance because the COD is 30% and there is a high degree of confidence that the true COD measure does not fall below the 20% maximum specified for this subclass.

COD = 22% Confidence interval = 17-27%

This example is not out of compliance although the COD is 22%. Due to the imprecision in the statistical measure it is possible that the COD is actually within the range of 17 to 20%; therefore, the county would be found in compliance.

### C. SAMPLE SIZE:

If less than 10 valid sales are collected for each subclass during the study period, all valid sales from the previous study period for that subclass shall be included in the statistical analysis. Sales used from the previous study period shall be trended to account for any changes in the market conditions since the date of sale.

## II. PROCEDURAL COMPLIANCE REVIEW

The following procedural review is designed to establish whether the county's appraisal performance, as it pertains to appraisal guidelines and directives, is in substantial compliance. It is very important that the county has the ability to perform the appraisal functions required by manuals, guidelines and directives.

- A. **REAPPRAISAL MAINTENANCE PLAN:**  
PVD shall confirm that the county has prepared and submitted to the Director of Property Valuation a feasible appraisal maintenance plan for the current year. The plan must contain objectives, personnel requirements, a budget and be approved by the Director.
- B. **COST INDEX ANALYSIS:**  
PVD shall review and confirm that the county has a current cost index study and the cost tables are updated to reflect that study. The county must document that they have developed a new construction cost file, trend analysis, cost index analysis and statistical analysis proving the index.
- C. **SALES FILE:**  
PVD shall verify that the county has a sales file that documents validity of sales, field inspection of data and sales price adjustments. Both physical and computer files must be maintained and updated on a regular basis.
- D. **DEPRECIATION DOCUMENTATION:**  
PVD shall confirm that the county has a depreciation analysis that utilizes all available valid sales and includes neighborhood CDU analyses. The county must include appropriate statistical and graphics reports and statistical analyses to test percent good assignments. The county must update percent good tables, if appropriate, with the results of the yearly analysis.
- E. **INCOME APPROACH:**  
PVD shall verify that the county has attempted or developed an income approach to value for appropriate properties. The county appraiser must document: neighborhood analysis, rental survey documentation, income and expense analysis, vacancy study, effective tax rate study, capitalization rate development documentation, expense summary used for public disclosure (general summary of income and expense data as opposed to specific income and expense statements). Updated income and expense models must be completed.
- F. **COMPARABLE SALES APPROACH:**  
PVD shall verify that the county has developed a market approach to value. The county must use logical variables, coefficients, selection criteria and neighborhood grouping.
- G. **25% MAINTENANCE REINSPECTION:**  
PVD shall confirm that the county has performed the data collection reinspection. Documentation on field documents as well as on the KSCAMA system showing data collection, quality control, grading and CDU application activities must be maintained.

H. LAND VALUATION MODEL CALIBRATION:

PVD shall verify that the county has developed and calibrated land valuation models. Neighborhood analysis forms, updated sales maps and data summary and analysis documentation must be complete to be considered in compliance. PVD shall also confirm that land pricing tables have been updated. Records shall be reviewed to determine lot sizing and model assignment uniformity in order to assist in determining conformity.

I. FINAL REVIEW PROCESS:

PVD shall verify that the county has performed the final review of values. The county must document the date, person/persons performing the final review, qualifications of person/persons performing the final review, time frame and resource allocation for performing a careful and critical examination of values.

III. AGRICULTURAL USE VALUATION

PVD shall confirm that the county has performed a review/inspection for current agricultural use and influence factors. The county must identify current use of agricultural land, including crop land, grassland, irrigated land, waterways, non-productive land, farm homesites and adverse influences, and update land pricing tables with current PVD values.

IV. CADASTRAL MAPPING

PVD shall confirm that accurate property ownership maps are being maintained. Updated field maps (showing new plats, splits and combinations), an updated assessment administration file and adherence to the parcel definition must be maintained.

V. CONSTITUTIONAL AND STATUTORY COMPLIANCE

The following review areas are to establish whether the county is following Kansas statutes not previously covered.

- A. Change of value notices mailed before statutory deadline. (K.S.A. 1994 Supp. 79-1460)
- B. Informal hearings held within statutory time frame or an extension has been granted pursuant to K.S.A. 1994 Supp. 79-1404, *Seventeenth*. (K.S.A. 1994 Supp. 79-1448.)
- C. Values certified to county clerk by statutory deadline, provided an extension has not been granted pursuant to K.S.A. 1994 Supp. 79-1404, *Seventeenth*. (K.S.A. 79-1466 and 79-1467)
- D. Real estate value trend study published at least five business days prior to the mailing of the CVN's. (K.S.A. 1994 Supp. 79-1460)
- E. Personal property listed as required and penalties applied where applicable. (K.S.A. 1994 Supp. 79-306 and 79-1422; K.S.A. 1994 Supp. 79-332a)
- F. The preservation and protection of all property tax records. (K.S.A. 45-403)

Approved: November 3, 1995

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Mark S. Beck  
Director of Property Valuation

COMPLIANCE REVIEW: SAMPLE 1					
<b>SUBCLASS WEIGHTING:</b>					
	<b>SUBCLASS</b>	<b>APPRAISED VALUE</b>		<b>% OF TOTAL</b>	
	RESIDENTIAL	250,000,000		84.7	
	COMM./IND.	45,000,000		15.3	
	TOTAL	295,000,000		100.0	
<b>MEASURE</b>		<b>POINTS ALLOCATED</b>	<b>SUBCLASS WEIGHT</b>	<b>POINTS POSSIBLE</b>	<b>POINTS RECEIVED</b>
1. STATISTICAL MEASURES					
a. RESIDENTIAL					
	APPRAISAL LEVEL	25	0.847	21.2	21.2
	APPRAISAL UNIFORMITY	25	0.847	21.2	21.2
b. COMMERCIAL/INDUSTRIAL					
	APPRAISAL LEVEL	25	0.153	3.8	3.8
	APPRAISAL UNIFORMITY	25	0.153	3.8	0.0
	TOTAL			50.0	46.2
2. PROCEDURES					
	a. APPRAISAL PLAN	4		4.0	4.0
	b. COST INDEX	4		4.0	4.0
	c. SALES FILE	4		4.0	0.0
	d. DEPRECIATION DOCUMENTATION	4		4.0	4.0
	e. INCOME APPROACH	4		4.0	0.0
	f. COMPARABLE SALES APPROACH	4		4.0	4.0
	g. 25% MAINTENANCE REINSPECTION	4		4.0	4.0
	h. LAND VALUATION MODEL CALIBRATION	4		4.0	4.0
	i. FINAL REVIEW PROCESS	4		4.0	4.0
	TOTAL	36		36.0	28.0
3. AGRICULTURAL USE VALUATION					
		2		2.0	0.0
4. CADASTRAL MAPPING					
		2		2.0	2.0
5. STATUTORY COMPLIANCE					
	a. CVN'S MAILED BEFORE STATUTORY DEADLINE	2		2.0	2.0
	b. HEARINGS WITHIN STATUTORY TIMEFRAME	2		2.0	0.0
	c. CERTIFICATION TO CLERK ON TIME	2		2.0	0.0
	d. PERSONAL PROPERTY LISTED CORRECTLY	2		2.0	2.0
	e. RECORDS PROPERLY KEPT	2		2.0	2.0
	TOTAL	10		10.0	6.0
<b>I. TOTAL POSSIBLE</b>				<b>100.0</b>	
<b>II. TOTAL RECEIVED</b>					<b>82.2</b>
<b>OVERALL SCORE (I/II)*100</b>			<b>82.2</b>		
1. b. COD outside acceptable range					
2. c. Sales file not maintained in an acceptable manner					
2. e. Income approach not properly developed					
3. Agricultural use not properly delineated					
5. b. Hearings not completed within statutory timeframe					
5. c. Values not certified to clerk by statutory deadline					

COMPLIANCE REVIEW: SAMPLE 2					
<b>SUBCLASS WEIGHTING:</b>					
	<b>SUBCLASS</b>	<b>APPRAISED VALUE</b>		<b>% OF TOTAL</b>	
	RESIDENTIAL	250,000,000		84.7	
	COMM./IND.	45,000,000		15.3	
	TOTAL	295,000,000		100.0	
<b>MEASURE</b>		<b>POINTS ALLOCATED</b>	<b>SUBCLASS WEIGHT</b>	<b>POINTS POSSIBLE</b>	<b>POINTS RECEIVED</b>
1. STATISTICAL MEASURES					
a. RESIDENTIAL					
	APPRAISAL LEVEL	25	0.847	21.2	21.2
	APPRAISAL UNIFORMITY	25	0.847	21.2	21.2
b. COMMERCIAL/INDUSTRIAL					
	APPRAISAL LEVEL	0	0.153	0.0	0.0
	APPRAISAL UNIFORMITY	0	0.153	0.0	0.0
	TOTAL			42.4	42.4
2. PROCEDURES					
	a. APPRAISAL PLAN	4		4.0	4.0
	b. COST INDEX	4		4.0	4.0
	c. SALES FILE	4		4.0	0.0
	d. DEPRECIATION DOCUMENTATION	4		4.0	4.0
	e. INCOME APPROACH	4		4.0	0.0
	f. COMPARABLE SALES APPROACH	4		4.0	4.0
	g. 25% MAINTENANCE REINSPECTION	4		4.0	4.0
	h. LAND VALUATION MODEL CALIBRATION	4		4.0	4.0
	i. FINAL REVIEW PROCESS	4		4.0	4.0
	TOTAL	36		36.0	28.0
3. AGRICULTURAL USE VALUATION					
		2		2.0	0.0
4. CADASTRAL MAPPING					
		2		2.0	2.0
5. STATUTORY COMPLIANCE					
	a. CVN'S MAILED BEFORE STATUTORY DEADLINE	2		2.0	2.0
	b. HEARINGS WITHIN STATUTORY TIMEFRAME	2		2.0	0.0
	c. CERTIFICATION TO CLERK ON TIME	2		2.0	0.0
	d. PERSONAL PROPERTY LISTED CORRECTLY	2		2.0	2.0
	e. RECORDS KEPT PROPERLY	2		2.0	2.0
	TOTAL	10		10.0	6.0
<b>I. TOTAL POSSIBLE</b>				<b>92.4</b>	
<b>II. TOTAL RECEIVED</b>					<b>78.4</b>
<b>OVERALL SCORE (I/II)*100</b>			<b>84.9</b>		
Reason for "0" points by measures					
1. b. Median and COD outside acceptable range—Confidence intervals overlap acceptable range					
2. c. Improper handling of COV's					
e. No income and expense file					
3. Cost tables not updated with current use values					
5. b. Hearings scheduled past deadline					
c. Certification made past deadline					