

April 14, 2014

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

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 450 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 450 is respectfully submitted to your committee.

SB 450 would change the capitalization rate formula for valuing land devoted to agricultural use. The bill would remove the add-on percentage to the capitalization rate and would eliminate the 11.0 percent floor and the 12.0 percent ceiling on the capitalization rate that is currently set by the Director of Property Valuation at the Department of Revenue. The bill would set the capitalization rate for valuing land devoted to agricultural use to the contract rate of interest on new federal land bank loans in Kansas as of July 1 of each year averaged over a five-year period. The bill would also remove real estate taxes as an expense in the formula for valuing land devoted to agricultural use.

Passage of SB 450 would increase property tax revenues by increasing the value of land devoted to agricultural use. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates that this bill would increase revenues to these two funds by \$3,665,358 in FY 2015, with \$2,443,572 going to the EBF and \$1,221,786 going to the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive additional property tax revenue through the state's uniform mill levy, the state customarily provides less state aid through the school finance formula. The Department of Revenue estimates the reduced state expenditures for aid to schools to be \$48,871,444 in FY 2015. The bill would also increase revenues to any local government that levies a property tax.

To formulate these estimates, the Department of Revenue reviewed data on the assessed value of land devoted to agricultural use. The Department indicates that applying the 2014 five-year average interest rate of 5.45 percent as the capitalization rate would increase the valuation of land devoted to agricultural use by more than \$2.4 billion, from approximately \$1.5 billion to

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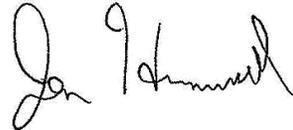
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approximately \$3.9 billion. Any fiscal effect associated with SB 450 is not reflected in *The FY 2015 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would increase local property tax revenues by increasing the assessed valuation of agricultural land that is located within the boundaries of a county or city. However, the Kansas Association of Counties and the League of Kansas Municipalities does not have complete assessment data on this type of property to make a precise estimate of the fiscal effect on local governments.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive style with a large initial "J" and "H".

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Revenue
Melissa Wangemann, KAC
Larry Baer, LKM