

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on March 9, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator Steve Morris
Jamie Clover Adams, Secretary of Agriculture
Mark Beck, Property Valuation Division
Allie Devine, Kansas Livestock Association
Leslie Kaufman, Kansas Farm Bureau

Others attending: See attached list.

The minutes for the March 1, 2, and 7, 2000, meetings were approved.

SB 654—Property taxation; concerning the valuation of land devoted to agricultural use

Senator Steve Morris testified in support of **SB 654**. He explained that the provisions of the bill give the Director of the Division of Property Valuation additional flexibility in determining the capitalization rate (cap rate) used in determining values for agricultural land. He explained further that the flexibility is needed in order to moderate increases occurring statewide under the current system. Without this additional flexibility, significant increases will continue to occur. (Attachment 1)

Jamie Clover Adams, Secretary of Agriculture, testified in support of **SB 654**. She explained that **SB 654** would provide broad, short-term property tax relief to Kansas agriculture during tough economic times. It increases the cap rate for tax year 2000, declines for two years and then sunsets. She noted that agricultural land is valued based on its productivity. The formula for valuation operates on an eight-year rolling average, using eight years worth of data and a wide range of variables within each year's data. Because of the nature of data collection, the formula is always two years old. The rolling average was meant to smooth out the market cycle; however, with the situation agriculture faces today, the smoothing will not take effect until after the crisis has passed. To illustrate the lag problem, Ms. Adams referred to a chart included in her written testimony entitled, "Cash Receipts From Farm Marketings (millions)." She said **SB 654** addresses the lag problem and provides relief to agriculture at a time when it is sorely needed due to the fact that prices are at all-time lows and export markets are non-existent. (Attachment 2)

Mark Beck, Director of the Division of Property Valuation, informed the Committee that **SB 654** has two components of interest to the Department. First, the bill provides relief to all agricultural landowners in response to a recent downturn in the agricultural economy. Second, the bill clarifies that wetlands are land devoted to agricultural use. With regard to the first component, Mr. Beck stated that the bill will require additional, but manageable, administrative efforts on behalf of the Department and the counties in order to apply relief to tax year 2000. With regard to the second component, Mr. Beck explained that the bill clarifies that land that is in the federal wetlands reserve program shall be classified as land devoted to agricultural use and that such land shall be valued as dry crop land. He noted that this provision resulted from a recent Board of Tax Appeals case wherein the Board held that wetlands should be classified as "other" rather than "agricultural." He explained that land devoted to agricultural use is valued based upon its use, but property in the "other" subclass is valued at its fair market value. For the Committee's information, Mr. Beck included a fact sheet on the wetlands reserve program with his written testimony. (Attachment 3)

Mr. Beck discussed his handout entitled "Agricultural Land Value Comparison – Adding 1.5 Points to Cap

CONTINUATION SHEET

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Rate.” He explained that the data on the spreadsheet was sorted by crop reporting district because the effects within a district are somewhat similar. If sorted alphabetically, the effects are not as clearly illustrated. (Attachment 4) As a point of interest, Senator Lee explained that the cap rate includes a five-year average of the interest rate, the local rural county mill levy (done county by county), and, currently, a 7.5 percent automatic add on by the Director plus 2 percent additional at the Director’s discretion. Mr. Beck said the Department has used all of the 2 percent discretionary rate for the last several years which has the net effect of lowering the cap rate and raising the value.

Allie Devine, representing the Kansas Livestock Association (KLA), testified in support of the concepts contained in **SB 654**. She reviewed the two amendments to current law in the bill. She also distributed copies of a similar bill recently passed by the House Committee on Taxation which KLA supports, **HB 2715**. She explained that **HB 2715** contains the following: (1) wetlands provisions, (2) clarifications as to the method of valuation of pastureland, (3) authorization of the use of adverse influences to county appraisers, and (4) creation of the position of assistant director of property valuation for use value appraisal within the Division of Property Valuation. She discussed provisions 2, 3, and 4 and requested that the Committee consider adding them to **SB 654**. She noted that, although KLA prefers **HB 2715**, it supports any effort to allow additional flexibility of the cap rate to adjust the process to compensate for unusual wide fluctuations in agricultural income. (Attachment 5)

Leslie Kaufman, Kansas Farm Bureau, testified in support of **SB 654**. She stated that Farm Bureau strongly supports the appraisal of agriculture land on the basis of its income producing capability and has been intensely involved in securing the constitutional and statutory framework for use value appraisal. She emphasized that equitable procedures for determination of net income and for establishing an appropriate cap rate are essential to assure equity and stability in the valuation of agriculture land. (Attachment 6)

Senator Corbin commented that **SB 654** would benefit not only agriculture but also many developers as there is a great deal of undeveloped land in metropolitan areas described as farm land even though the land may have housing or commercial buildings completely around it. Although there may be streets and sewers located on that land, it is taxed at farm land value.

Senator Langworthy informed the Committee that the fiscal note on **SB 654** is forthcoming. There being no further persons wishing to testify, she closed the hearing on **SB 654**.

The meeting was adjourned at 12:04 p.m.

The next meeting is scheduled for March 13, 2000.