

March 19, 2020

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185A-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2739 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2739 is respectfully submitted to your committee.

Under current law, the capitalization rate that is used in part to determine the valuation of land devoted to agricultural use for property tax purposes is determined by formula, which would not allow the rate to be less than 11.0 percent or higher than 12.0 percent. HB 2739 would not allow the capitalization rate for land devoted to agricultural use to be less than 13.0 percent beginning in tax year 2022. Beginning in tax year 2022, the valuation of land devoted to agricultural use would use the commodity prices, crop yields, and crop mix based on data from that calendar year instead of the current practice of using an eight-calendar year moving average.

The Department of Revenue indicates passage of HB 2739 has the potential to decrease property tax revenues by lowering the assessed valuation of land devoted to agricultural use. Raising the capitalization rate to 13.0 percent would lower agricultural land values (the higher the capitalization rate, the lower the value). The Department indicates that prohibiting the use of a multi-year moving average would increase the volatility of agricultural land values. The Department of Revenue does not have data on future land values to make a precise estimate of the amount of property tax revenue that would be reduced as a result of this bill. The bill would reduce the amount of property tax revenues that would be collected for the two building funds, the Educational Building Fund and the State Institutions Building Fund. Reduced property tax revenue would also have an effect on state expenditures for aid to school districts. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. Local governments that levy a property tax would also receive less revenues; however, the amount of reduced property tax revenues cannot be estimated.

The bill would have no fiscal effect on the operations of the Department of Revenue. The Kansas Association of Counties indicates that the bill has the potential to reduce the amount of local property tax revenues that are used in part to finance local governments. Eliminating the multi-year moving average would increase the volatility of agricultural land values and has the potential to make it more difficult to estimate future property tax revenue in the budgeting process. Any fiscal effect associated with HB 2739 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell". The signature is fluid and cursive, with a large initial "L" and "C".

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jay Hall, Association of Counties
Dale Dennis, Education