State of Kansas
House of Representatives

27487 Wells Creek Rd.
Wamego, KS 66547-1867
(785) 456-9799

State Capitol
Topeka, Kansas 66612
(785) 296-7310
ron.highland@house.ks.gov

Ron Highland, DVM, PhD
Representative, 51st District

Committee Assignments
Chair: Water
Member: Commerce, Labor and Economic Development
Member: Taxation
Member: Rules and Journal

January 28, 2021

Taxation Committee
Kansas House of Representatives

Ref: HB 2023, Testimony as a proponent

Chairman Smith and members of the committee:

Thank you for allowing me the time to come before you to give my testimony in favor of HB 2023. In accordance with the new House Rules: I am bringing this bill forward after visiting with many landowners and several county commissioners. The comments by the landowners centered around the high tax bills during years of declining profits or even losses.

Dr. Allen Featherstone, Department Head, K-State Department of Agricultural Economics helped me analyze this issue. Because Landlord Net Income (LNI) is calculated utilizing a rolling eight-year average, any sudden changes in net income are not seen in the calculation for years. The eight-year rolling average becomes a sixteen-year calculation (plus two) to smooth out the ups and downs seen each year. During the years 2011, 2015 – 2018, the drop in profits and in many cases actual losses, the LNI calculations resulted in elevated income taxes owed. The rural legislators heard from their constituents asking for relief.

At my request, Dr. Featherstone did an in depth look at possible remedies for this ongoing situation. The large peaks and valleys in the LNI calculations are smoothed by different methods in his work. We looked at a five-year moving average, a five-year simple average, and an eight-year simple average. His paper on this issue has been provided for your reading pleasure. First, how is the LNI calculated?

Overview

Agricultural lands are valued utilizing a Use Value Appraisal method, not market values. This method provides level, fairly stable funding, protecting landowners from large valuation increases and state and local governments from large decreases.

Agricultural land is broken down into four classifications: dry land cultivated, irrigated cultivated, native grassland, and tame grassland. More productive land is valued higher than average or poor land, based on an estimate of net income.

Basic Valuation Process: Gross Income - Expenses = Net Income

$$\frac{\text{(Net Income)}}{\text{(Cap Rate)}} = \text{Ag Use Value}$$

Ag Use Value x 30% = Assessed Value

Capitalization Rate Calculation 2015

Five-year average of long-term ag land loans (Farm Credit)	5.55%
Statutory add on rate	0.75%
Director's add on	2.00%
2014 CALCULATED Cap Rate	8.30%
OR	
MINIMUM Rate	11.00%
Plus county average agricultural property tax rate (Levy x Assessment Rate)	3.82%
Overall (average) Cap Rate	14.82%

Gross Income Calculation:

Gross income is calculated using an 8-year average of the previous crop prices and yields. Over the past few years, relatively lower crop prices from the early 2000's have been dropped from the average, while relatively higher prices from the early 2010's have been added to the average. For example, in calculating 2015 values, the 2006 soybean price of $6.37 will be eliminated and the 2014 price of $9.63 will be included, increasing the 8-year average by 4%.

Relatively higher agricultural prices for 2011-2013 led to an increase in net income. We have gradually seen a shift towards lower prices since 2015, but there are still multiple strong years in the formula utilized to calculate Ag Use Value. Over this time period, the state portion of the mill levy (20 mills for USD and 1.5 for the state general fund) have remained constant. County mill levy levels may have increased or decreased overtime based on local budgets. However, no increases in property taxes can be directly linked to legislation at the state level.

Examples of calculations in graphs:

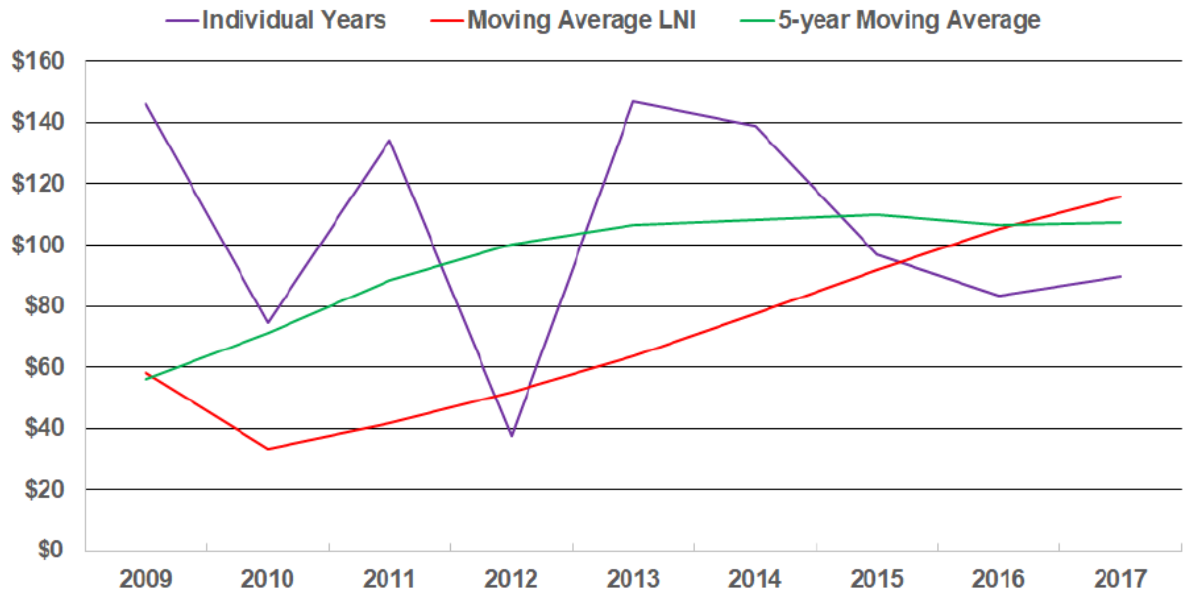

Figure 7. The eight-year moving average process for landlord (red) returns and the five-year moving average (green) for Atchison county compared with individual years (purple).

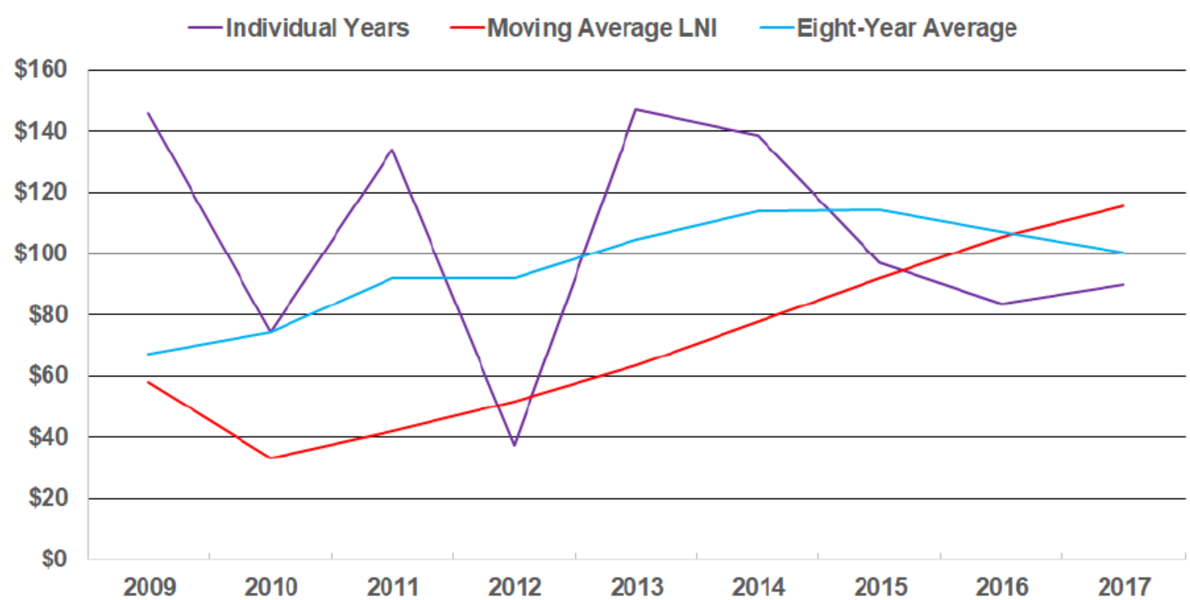

Figure 8. The eight-year moving average process for landlord (red) returns and the eight-year simple average (blue) for Atchison county compared with individual years (purple).

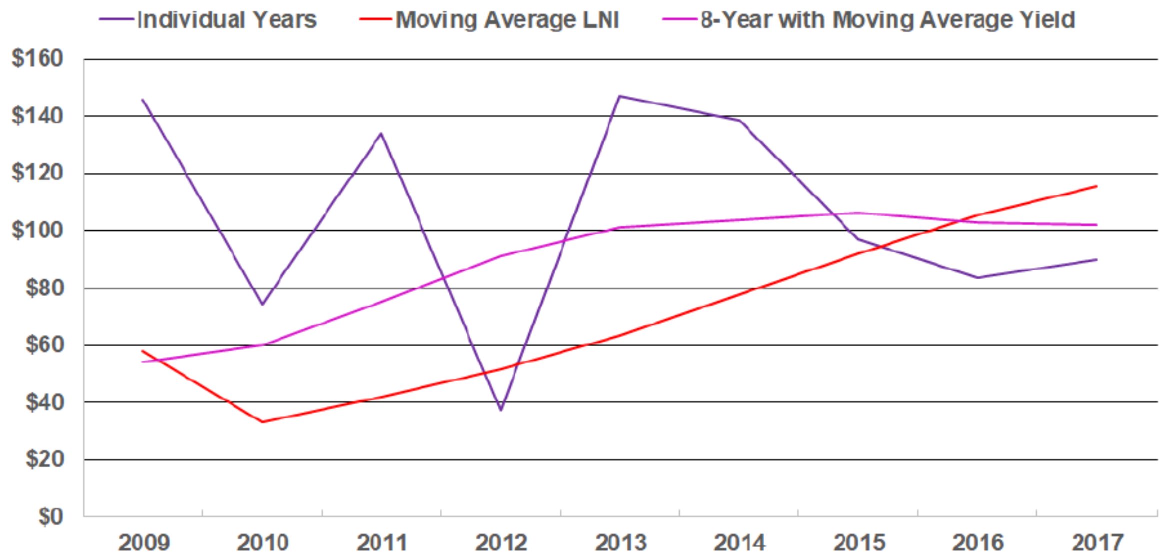

Figure 9. The eight-year moving average process for landlord (red) returns and the eight-year simple average with moving average yield (pink) for Atchison county compared with individual years (purple).

Following several meetings with Dr. Featherstone and constituents, I decided on the eight-year simple average solution. This smooths out the extreme variations in the yearly calculations giving some confidence for planning. This issue is important for both the landlord and the county commissioners. They too are seeing relatively long periods of above average income tax return, but that is followed by extended periods of below average income tax returns. Planning budgets for both the landlord and the county commissioners becomes problematic. This bill is an attempt to alleviate, at least, part of the problem faced in our rural areas.

Thank you,

Respectively submitted by,

Ronald L. Highland, D.V.M, Ph.D.

Ron Highland, Dist. 51
Kansas House of Representatives