

February 1, 2021

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

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2023 by Representative Highland

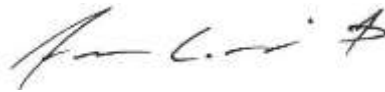
In accordance with KSA 75-3715a, the following fiscal note concerning HB 2023 is respectfully submitted to your committee.

Under current law, for property tax purposes an eight-year average of commodity prices, yields, and crop mixes is used when developing the single year's landlord net income for crop land. HB 2023 would change the methodology. Beginning in tax year 2023, 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. The valuation of this property would still use the eight-year average of landlord net incomes to develop the year's final value. The bill also changes references from the U.S. Department of Agriculture Soil Conservation Service to the U.S. Department of Agriculture Natural Resources Conservation Service.

The Department of Revenue indicates passage of HB 2023 has the potential in the near term to decrease property tax revenues by lowering the assessed valuation of land devoted to agricultural use. 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 2023 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation
Jay Hall, Association of Counties
Jody Allen, Tax Appeals
Wendi Stark, League of Municipalities