



Since 1894

To: House Committee on Taxation
Representative Adam Smith, Chair

From: Dean Klahr, Director of Stockgrowers Division, Kansas Livestock Association

Re: **HB 2023 AN ACT concerning property taxation; relating to valuation of real property; land devoted to agricultural use.**

Date: February 3, 2021

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing over 5,700 members on legislative and regulatory issues. KLA members are involved in many aspects of the livestock industry, including seed stock, cow-calf, and stocker cattle production; cattle feeding; dairy production; swine production; grazing land management; and diversified farming operations.

Thank you, Chairman Smith and members of the Committee, for the opportunity to present KLA's views on HB 2023. KLA is neutral on HB 2023 because while this bill will cause increased volatility in agricultural land valuation and long-term average valuations will remain the same, there will be some short-term decreases in valuations that could provide some property tax relief, assuming mill levies remain constant.

The current formula used to determine use-value property tax rates on agricultural land, use the method of moving averages, which can be simply described as an eight-year average of an eight-year average. This formula, although not perfect, was designed to smooth variability between yearly property tax rates on agricultural land for both the benefit of both the landowner and local government when planning for the upcoming budget. In contrary, HB 2023 would be designed for property tax rates on agricultural land to more closely reflect current market conditions based on a simple eight-year average.

Adopting a straight eight-year average will accelerate valuation declines as higher commodity prices from earlier last decade are removed from the formula faster. This could provide tax relief to some producers if mill levies stays constant. However, moving to an eight-year straight average will also mean that higher prices, such as were encountered at the end of 2020, will more quickly result in higher valuations. In addition, while this changes the formula to be slightly more reflective of current market conditions, it is still an eight-year average that is delayed two years due to when survey data becomes available. Therefore, valuations will still, at times, be counter to actual trends in net farm income.

Depicted below are the results from a study completed by Dr. Allen Featherstone, Department Head and Professor for the Department of Agricultural Economics at Kansas State University. The solid line represents current property valuations on non-irrigated agricultural land in Barton, Dickinson, and Rush county. The dashed lined represents the valuations should HB

2023 be enacted into law. From 2016-2017 most regions in the state saw a decrease in net farm income, yet under both the current system and HB 2023 as it is proposed, property valuations would have increased. In addition, valuation would have been higher from 2010 through 2018 had HB 2023 been in place.

This discussion in valuations also highlights a final point. KLA members do not like property tax. Our members support ways to reduce the property tax burden on agriculture. However, valuations are only one part of tax liability. The other part is the mill levy. Just because the legislature enacts a change to the valuation system that creates are short-term acceleration in valuation declines, it will not guarantee tax relief. If local taxing entities do not control spending in their budgets, the mill levies will increase to compensate for the lost revenue.

KLA comes to the committee with a neutral stance as there are small, short-term benefits to adopting HB 2023, but these short-term gains are not without increased volatility. Finally, it is important to note KLA will only maintain a neutral stance with the current language in HB 2023. If any amendments to HB 2023 are adopted that would increase valuations or make other detrimental changes, KLA will switch its stance from neutral to opposed. Thank you for the opportunity to submit KLA's views to the Committee.

