

April 7, 2015

The Honorable Les Donovan, Sr., Chairperson  
Senate Committee on Assessment and Taxation  
Statehouse, Room 123-E  
Topeka, Kansas 66612

Dear Senator Donovan:

**SUBJECT:** Fiscal Note for SB 178 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 178 is respectfully submitted to your committee.

SB 178 would change the valuation of land devoted to agricultural use for calculating property taxes. The valuation of land devoted to agricultural use would be based on cash rental rates typically received by the landlord from the land. The capitalization rate would be the contract rate of interest on new federal land bank loans in Kansas on July 1 of each year averaged over a five-year period and would eliminate the current capitalization method. The bill would not allow controlled shooting areas to be valued as land devoted to agricultural use. The bill would also remove expenses in the formula for valuing land devoted to agricultural use.

Passage of SB 178 would increase property tax revenues by increasing the value of land devoted to agricultural use. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates that this bill would increase revenues to these two funds by \$12,070,000 in FY 2016, with \$8,047,000 going to the EBF and \$4,023,000 going to the SIBF. The bill would increase property tax revenues by \$160,870,000 that school districts would receive through the state's uniform mill levy. The bill would also increase revenues to any local government that levies a property tax on land devoted to agricultural use.

To formulate these estimates, the Department of Revenue reviewed data on the assessed value of land devoted to agricultural use from tax year 2014. The Department estimate replaces the landlord's net income with cash rents for both grass land and crop land and applies the 2014 five-year average interest rate of 5.45 percent as the capitalization rate. The Department estimates that the bill would increase the assessed valuation of land devoted to agricultural use by more than \$8.0 billion, from approximately \$1.7 billion to approximately \$9.7 billion. The estimate is based on the statewide aggregate data and not on county-specific data. The Department assumes that the average statewide property tax mill levy of 122.85 for tax year

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2014 would be constant; however, if additional property taxes are collected from land devoted to agricultural use then state and local governments could reduce the mill levy rate to make the proposal revenue neutral. Any fiscal effect associated with SB 178 is not reflected in *The FY 2016 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would increase local property tax revenues by increasing the assessed valuation of agricultural land that is located within the boundaries of a county or city. The amount of additional property tax revenue for cities would be limited because of the negligible amount of land devoted to agricultural use within the boundary of a city. However, the Kansas Association of Counties and the League of Kansas Municipalities do not have complete assessment data on this type of property to make a precise estimate of the fiscal effect on local governments.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Jody Allen, Tax Appeals  
Jack Smith, KDOR  
Melissa Wangemann, KAC  
Larry Baer, LKM  
Dale Dennis, Education  
Justin Law, Agriculture