

To: House Taxation Committee, Representative Adam Smith, Chairperson

From: John Donley, Kansas Farm Bureau

Date: February 3, 2021

Re: HB 2023 – Changing to an eight-year simple average when determining values of ag land

Chairman Smith and members of the committee, I appreciate the opportunity to present testimony on behalf of the Kansas Farm Bureau (KFB) in opposition to HB 2023. KFB is the state's largest general farm organization representing more than 30,000 farm and ranch families through our 105 county Farm Bureau Associations.

When visiting with KFB members around the state, rising property taxes is a consistent concern for most KFB members, as well as most Kansans. State and local units of government have passed policy over the past several decades that has increased the reliance on property taxes to fund local units of government. We have all heard from members and constituents that increases in property taxes are on the top of their mind. We believe that HB 2023, while well intentioned, is not the proper policy for Kansas. In fact, the concerns about increasing ag land valuations over the past few years would have been even louder because the valuations would have increased even greater over the past few years. (See <https://agmanager.info/land-leasing/land-buying-valuating/agricultural-landlord-net-income-under-alternative-tax-computation>.) One could argue that it is not the underlying Landlord Net Income (LNI) and use value formula that is driving the local property tax increases but rather local units of government raising the mill levy or at a minimum keeping them flat while the use value formula increases.

Admittedly, valuations will likely be lower the next few years should this bill be adopted and if commodity prices stay low. However, if (or *when* as the eternal optimists that farmers and ranchers are) profitability returns to the agricultural sector, the return of increased valuations will be seen more quickly under the provisions of this bill. As you will see in the charts attached to this testimony, the eight year method of moving (or rolling) averages helps to minimize the peaks and valleys that you see in agriculture's profitability. This provides local units of government in rural areas with more steady and predictable revenues while also limiting the chances for drastic increases for farmers and ranchers after they have a good year. In the long run, the policy change is essentially a zero sum game. The valuations will eventually equal out, but the volatility of those yearly valuations will increase under the proposed bill making long-term budgeting and planning at a local level more difficult. That is the policy decision you are faced with in HB 2023. Kansas Farm Bureau prefers less volatility like the current formula. While the increased volatility by moving to a straight eight year average is not drastic, it does exist.

Ideally, farmers and ranchers would pay the highest property taxes during their most profitable years. However, the data lag that naturally exists to provide accurate data to the use value formula will never allow that to happen. The data lag is necessary to utilize accurate data to ensure accurate valuations based on the median income producing capabilities of the real estate. Currently the lag is approximately two years.

In conclusion, the Kansas system of valuing agricultural land has long been considered one of the best systems for valuing agricultural land. Many states consider us the *gold standard*. We urge caution to this body when attempting to make changes to this long-standing, effective, and predictable formula for valuing agricultural land. Therefore, we strongly encourage you to oppose HB 2023. I will stand for questions at the appropriate time.