

MINUTES

SPECIAL COMMITTEE ON USE VALUE ASSESSMENT

May 11-12, 1977

Wednesday, May 11

The meeting was called to order by Chairman Powell at 10:15 a.m., with all members except Representative Slattery present. Staff present: Bill Edds, Roy Johnson, Bob Taylor.

Introductory and Background

The Chairman reviewed developments during the 1977 Session and the need to reach agreement on differences between the House and Senate bills to facilitate study of the potential effects of a specific use value appraisal proposal.

Staff reviewed a summary comparison of the major provisions of H.B. 2631 and S.B. 484, and extracts from information provided to the House Select Committee by representatives of the Kansas Farm Management Association, the Kansas Crop and Livestock Reporting Service, the Soil Conservation Service (SCS), the Agricultural Stabilization and Conservation Service (ASCS), and the Wichita Federal Land Bank.

Senator Simpson raised a question as to whether the language of the constitutional amendment would permit special treatment of other open space lands such as game reserves. The consensus was that this would require a very liberal interpretation of "land devoted to agricultural use."

It was agreed that H.B. 2631 (Reprint) be used as the vehicle for further revision based on suggestions from Committee members, consultants, the Division of Property Valuation, and staff.

Review and Revision of H.B. 2631

In the staff review, it was noted that the "and" in line 32 had been changed to "or" in the Senate bill, so that land devoted to agricultural use would include production of plants, animals or (rather than and) horticultural products. It was moved by Representative Hineman and seconded by Senator Kerr that this amendment be made in H.B. 2631. Motion carried.

Lyle Clark, PVD, called attention to the fact that the urban classification in K.S.A. 79-503 does not include a sub-classification for agricultural land. To permit application of use value to farm land within city boundaries, it was moved by Representative Wilkin and seconded by Senator Mulich that the agricultural land classification not be limited to rural areas. Motion carried.

After discussion of subsection (b) of Section 2 of S.B. 484 (qualifying period of use for the primary purpose of obtaining a monetary profit), it was moved by Representative Hineman and seconded by Senator Simpson that this requirement not be added to the bill being worked. Motion carried.

With regard to the length of the averaging period for production, etc., (ten years in House bill and five years in Senate bill), Dr. Flinchbaugh suggested that: (1) it might not make a great deal of difference; (2) the Farm Management people say that there would be no problem in getting ten years of yield data but that reliable expense figures are available only for about 1971 and succeeding years; and (3) that there might be advantages to getting 1973, an unusual year, out of the base as quickly as possible. Also, Lyle Clark had called attention to a possible problem in securing data for the immediately prior year by the time the guidelines for use by county appraisers would need to be completed. After considerable discussion, it was moved by Senator Kerr and seconded by Senator Mulich that the bill be amended (lines 54 and 76) to provide for averaging the latest eight calendar years for which data is available. Motion carried.

It was moved by Senator Pomeroy and seconded by Senator Mulich that in line 51 the word "actual" be stricken; that in line 55 the word "and" be changed to "at"; and that in line 57 the word "median" be inserted between "determine" and "production." Motion carried.

It was moved by Senator Pomeroy and seconded by Senator Mulich that in line 67 the words "those land classes denoted" be deleted; and that in lines 72 and 73 the words "land classes denoted" be deleted. Motion carried.

It was moved by Representative Wilkin and seconded by Representative Jarchow that between lines 61 and 74 the sentences be rearranged to bring together those relating to dry crop land and irrigated land on the one hand and those relating to pasture or rangeland on the other; and that in line 74 the word "rental" be inserted between "gross" and "income". Motion carried.

It was moved by Representative Hineman and seconded by Representative Thiessen that in line 79 the words "but not limited to" be stricken and the words "typical management fees" followed by a comma be inserted in lieu thereof. Motion carried.

It was moved by Senator Pomeroy and seconded by Senator Simpson that the definition of expenses (lines 77-84) be moved to Section 2 with appropriate change in the reference therein. Motion carried.

It was moved by Senator Pomeroy and seconded by Senator Simpson that in line 86 the words "equal to" be deleted and the words "determined to be" inserted in lieu thereof and the word "effective" be deleted and the word "contract" inserted in lieu thereof; and that in line 87 the words "on July 1 of each year" be inserted after the word "Kansas". Motion carried.

After further discussion of the problems of determining an "effective" Federal Land Bank rate of interest, it was moved by Senator Kerr and seconded by Representative Hineman that in line 86 after the word "rate" the words "three-fourths of one percentage point higher than that" be inserted. Motion carried.

An amendment, prepared by the House Select Committee after H.B. 2631 was printed, was distributed and discussed. This proposal amendment would have made the sentence beginning on line 88 read as follows:

Based on the foregoing procedures and on consultation with the county appraisers the director of property valuation shall make an annual determination of the range of values for the various classes within each county or homogeneous region and furnish publish the same to the several for required use by the county appraisers.

The proposed amendment was explained as a compromise which grew out of a discussion aimed at trying to insure county appraisers a voice in the development of the valuation guidelines and a degree of discretion in their application while adding an express requirement that they use such guidelines.

After discussion, it was moved by Senator Pomeroy and seconded by Senator Simpson that the sentence commencing in line 88 be made a new paragraph and that there be added to the sentence the words "who shall apply same to the various acreages by SCS classes which have been determined under this act." Motion carried.

The Committee discussed questions relating to appeals from determination of land classifications, particularly to whom would such appeals be made. After considerable discussion, the Division of Property Valuation was asked to work with the staff in developing suggestions in this area, as well as in the area of possible other appeals, for consideration at the next meeting.

In connection with section 4, relating to the recoupment or rollback tax, a question was raised as to where responsibility for determining a change in use should be placed. One suggestion was that whoever owned the land at the time of a change in use occurred (by sale or otherwise) be required to report the change to avoid a severe penalty. The staff was instructed to provide information on how this is handled in other states for consideration at the next meeting.

It was moved by Senator Pomeroy and seconded by Senator Kerr that the sentence beginning in line 93 be amended by deleting the commas in lines 93 and 96, by deleting in lines 93 and 94 the words "devoted to agricultural use and", by deleting in lines 94 and 95 the words "for ad valorem tax purposes upon the basis of its agricultural income or agricultural productivity;" that a new paragraph be started with the sentence beginning in line 100; and that in line 101 the word "another" and the comma be deleted and the words "a use other than agricultural, there shall be levied" be inserted. Motion carried.

It was moved by Senator Kerr and seconded by Representative Hineman that beginning in line 113 a new sentence be added providing that: "Whenever the use of land is changed from an agricultural use to another by the exercise of eminent domain, there shall be no recoupment of ad valorem taxes upon such land under the provisions of this section." Motion carried.

It was moved by Senator Pomeroy and seconded by Representative Thiessen that there be added to the above sentence language that also would exclude from the recoupment tax a sale under threat of eminent domain to a purchaser having the right of eminent domain. Motion carried.

Committee members requested additional illustrations of the difference between the House and Senate bill rollback provisions, and of broader options including provisions that might be more of a deterrent to removal of land from agriculture. Another member expressed the view that a rollback tax could not be expected to keep land in agriculture, and should not be regarded as a penalty for not doing so but rather as a matter of equity for other taxpayers.

Staff was directed to provide "balloon" mark-ups of the amendments adopted by the Committee through Section 4, and of suggestions from the Division of Property Valuation for changes in Sections 6 and following.

Bob Walters, Division of Property Valuation, was asked to provide additional information regarding a possible capitalization rate approach incorporating an equity concept.

Thursday, May 12

The meeting was called to order by Chairman Powell at 9:00 a.m., with all members except Representative Thiessen present. Staff present: Bill Edds, Roy Johnson, Richard Ryan, Bob Taylor, and Dale Dennis, State Department of Education.

Cloud County Pilot Study

Mark Edelman reviewed for the committee a pilot agricultural investment land study conducted in Cloud County to fulfill part of the requirements for a Masters degree. (Outline attached.) He and Mr. Thomas, Research Appraiser, answered questions about the project.

Mr. Edelman reported that the field work (appraisal) has been finished; that the data are now being analyzed; and that preliminary results for the first two parts will be available by July 1. The completed study will be available sometime in the fall.

PVD Sample County Test Project

Bob Walters, Division of Property Valuation, reviewed a proposed plan for the appraisal of 84 sections of land in seven Kansas counties "for the purpose of comparing the values based on 'use value' with the values now on the assessment rolls and to also compare this 'use value' with 'market value' as defined by the courts." (Outline attached.)

Impact Study by Counties and School Districts

Dr. Flinchbaugh reviewed his 1976 Revised Study and reported that (if the necessary data is available) it could be re-done on the basis of the provisions of H.B. 2631, including: expansion to include 10 land classes; eight-year averaging; use of crop share approach based on Crop Reporting Service data; and a capitalization rate based on Federal Land Bank contract rates averaged over five years, plus 3/4 of 1 percentage point. He reported that a \$12,000 budget for such a study, covering the period from July 1 to December 31, that was prepared during the last session had a cushion in it.

Staff pointed out that the school finance formula includes four-year averaging of valuations for district wealth purposes and that unless some other change was made the effect of use-value appraisal on valuations would be phased in over a four-year period rather than being felt at once.

Committee Discussion and Action

When asked why no large urban county was included in the PVD sampling proposal, Mr. Walters said that there was no particular reason for excluding such a county. After further discussion, it was moved by Representative Slattery and seconded by Senator Simpson that Shawnee County be added to the list of counties to be included. Motion carried.

A question asked was how the various studies would complement each other. Bob Walters commented that the studies proposed would go beyond county averages to soil classes. In response to a further question, he said that the PVD study would provide information as to the cost of implementing use value appraisal. Dr. Flinchbaugh noted that re-doing the impact study as proposed would provide information for each county and each school district under the provisions of H.B. 2631.

In the course of further discussion it was noted that neither the PVD nor the Cloud County studies would cover the effect within complete taxing units in terms of possible tax shifts.

When questioned about completion dates, Mr. Walters indicated that the PVD study could be completed by October 1 or before. Dr. Flinchbaugh gave November 1 as a date for having available study results prior to publication.

It was moved by Senator Pomeroy and seconded by Representative Slattery that the Committee approve the PVD study as outlined, with Shawnee County added, and request the Division to carry it out, with authority to solicit the cooperation of county officials in the name of the Committee. Motion carried.

It was moved by Representative Slattery and seconded by Senator Pomeroy that the proposed impact study be approved with the following elements included: (1) using percentages from 1974 to determine school district agricultural investment land valuations; (2) four-year averaging in the school finance formula with phase in (1-3; 2-2; 3-1; and 4 years) of use value data; (3) capitalization rates at (a) the Federal Land Bank contract rate, and (b) at this rate plus 3/4 of 1 percentage point (rounded to the nearest 1/4); (4) school finance assumptions of (a) the state providing the full amount of any increased aid entitlements, and (b) proration or a change in the LER to retain the same total; and (5) two runs of county tables, with (a) all valuations adjusted to 30 percent, and (b) only use-value computed at 30 percent. Motion carried, unanimously.

Staff noted that the omnibus appropriation bill had included a \$12,000 appropriation for the impact study but that the Senate Committee combined this with other funds appropriated to the Legislative Coordinating Council. It was suggested that a request, with budget attached, be submitted to the LCC at its June 3 meeting. It was moved by Senator Simpson and seconded by Senator Pomeroy that the Chairman be authorized to contact the LCC for authority to spend up to \$12,000 and to provide a budget therefore after conferring with the staff, Dr. Flinchbaugh and the State Department of Education. Motion carried, unanimously.

Senator Simpson brought up the need for consideration of related topics such as the ratio study, fixed millage levies for such purposes as special education, and the role of the county board of equalization.

Other Business

After discussion, the dates of July 11 and 12 were selected for the next meeting. The agenda will include the above topics, areas in which additional information has been requested, and progress reports on the studies approved.

The Chairman reminded members of the invitation to visit with county appraisers at their annual meeting in Manhattan, at the University Ramada Inn, on May 19, at 9:30 a.m. to 11:00 a.m., on the subject of use value appraisal. He reported that he and at least three other Committee members, plus one staff member, planned to attend.

Prepared by Roy H. Johnson

Approved by Committee on:

July 11, 1977
(Date)

CLOUD COUNTY AGRICULTURAL INVESTMENT LAND APPRAISAL STUDY

Objectives:

- I. To compare current assessments of agricultural land with
 - A. Reappraisal under Fair Market Value (KSA 79-503)
 - B. Reappraisal under Use Value

- II. To measure the impact of variable factors affecting use value
 - A. Methods of estimating net return to land
(owner/operator vs. landlord approach)
 - B. Prices
(appraiser's predicted, 1, 5, 10, 15-year moving averages)
 - C. Specific crops and rotations
(appraiser's rotation vs. Crop Reporting Service county average)
 - D. Yields
(appraiser's dominant soil type, Crop Reporting Service county average, or Soil Conservation Service predicted)
 - E. Inputs
(appraiser's predicted vs. K.S.U. farm management budgets using 1, 5, 10, 15-year moving average)
 1. Arbitrary inputs (management and wage rates)
 2. Inputs that vary by soil type (fuel, repairs, fertilizer, ?)
 - F. Capitalization rates
(6, 8, 10, ?)

- III. To measure the differences between
 - A. Assessment/sales ratios for agricultural investment land
 - B. Assessment/market value appraisal ratios, and
 - C. Assessment/use value appraisal ratios

The Cloud County project is being conducted by Kansas State University, Manhattan, Kansas. Project personnel include: Dr. B. L. Flinchbaugh, Special Assistant to the President; Mark A. Edelman, Graduate Research Assistant; and Wilton B. Thomas, Research Appraiser. Presented to the Special Committee on Use Value Appraisal of the Kansas Legislature, May 12, 1977.

DIVISION OF PROPERTY VALUATION

In accordance with your request I am herewith submitting a proposed plan to appraise ⁹⁶~~84~~ sections of land located in ⁸~~7~~ Kansas counties. These appraisals would be completed using the guidelines as now outlined in House Bill 2631 for the appraisal of agricultural land based on its productivity or income.

These appraisals would be made for the purpose of comparing the values based on "use value" with the values now on the assessment rolls and to also compare the "use value" with "market value" as defined by the courts.

The ^{eight} seven counties proposed for sampling are as follows:

<u>Region</u>	<u>County</u>	<u>County Seat</u>	<u>SCS Mapped</u>
	<i>Shawnee</i>	<i>Topeka</i>	<i>Yes</i>
Northwest	Sheridan	Hoxie	No
Southwest	Haskell	Sublette	Yes
North Central	Jewell	Mankato	No
South Central	Rice	Lyons	Yes
Northeast	Nemaha	Seneca	No
Southeast	Crawford	Girard	Yes
Flinthills	Greenwood	Eureka	No

It is proposed that 12 sections of land within each of the above named counties be selected for appraisal. The 12 sections selected would be in three different areas of each county and these sections of land would be representative of the various land classes found in each county.

The appraisal and comparative analysis would involve 15 separate ^{of investigation or analysis. These areas} areas together with source of data, proposed personnel and estimated time to complete are listed below. The time element may vary somewhat between counties due to the type of land involved. However, for the purpose of this analysis it is assumed that each county would require the same amount of man days.

1. Activity - To field inspect and classify 12 sections of land on aerial photographs using SCS criteria.
 - A. Source of Data - Aerial photographs, field inspection, owner and/or operator and local SCS office.
 - B. Proposed Personnel - Area fieldmen and local county appraisers working together.
 - C. Estimated Time To Complete - 10 Man Days.
2. Activity - To determine the typical crops and rotation practices common to the area.
 - A. Source of Data - Local farmers and/or ranchers, farm management companies and Kansas State University Extension Service.
 - B. Proposed Personnel - County appraisers to interview local farmers, area fieldmen to interview farm management companies and Bob Burke to gather data from Kansas State University.
 - C. Estimated Time to Complete - 6 Man Days.

3. Activity - To determine the typical production level for crops grown on the various dry and irrigated land classes for the past 10 years. 8
 - A. Source of Data - Local farmers, farm management companies, crop reporting service, local SCS office and Kansas State University Extension Service.
 - B. Proposed Personnel - County appraisers to interview local farmers, area fieldmen to interview farm management companies and Bob Burke to gather data from Kansas State University and crop reporting service.
 - C. Estimated Time to Complete - 12 Man Days.
4. Activity - To determine the carrying capacity for the various rangeland classes.
 - A. Source of Data - Local farmers and ranchers, farm management companies, Kansas Livestock Assn., local SCS office, Kansas State University Extension Service.
 - B. Proposed Personnel - County appraisers to interview local farmers and ranchers, area fieldmen to interview local SCS office and Bob Burke to gather data from KLA and K State University.
 - C. Estimated Time To Complete - 9 Man Days.
5. Activity - To determine the average local price paid during the harvest season for crops grown in the area for the past 10 years. 8
 - A. Source of Data - Local grain terminals and crop reporting service.
 - B. Proposed Personnel - Area fieldmen to gather data from local grain terminals and Bob Burke to gather data from crop reporting service.
 - C. Estimated Time to Complete - 2 Man Days.
6. Activity - To determine the gross cash rent paid for pasture and/or rangeland.
 - A. Source of Data - Local farmers and ranchers, farm management companies, Kansas Livestock Assn., Kansas State University Extension Service and crop reporting service.
 - B. Proposed Personnel - County appraisers to interview local farmers and ranchers, area fieldmen to interview farm management companies and Bob Burke to gather data from KLA, K State and crop reporting service.
 - C. Estimated Time To Complete - 6 Man Days.
7. Activity - To estimate the gross income that each land class has produced over the past 10 years. 8
 - A. This activity will be completed after steps 1 through 6 have been accomplished. It will involve the organization of the raw data and the processing of this data into gross income for the various land classes. This work will be done in the Department offices and it is estimated to take 6 man days.
8. Activity - To determine typical landlord-tenant agreements for dry and irrigated cropland.
 - A. Source of Data - Local owners and/or operators, farm management companies and Kansas State University Extension Service.

- B. Proposed Personnel - County appraisers to interview local people, area fieldmen to interview farm management companies and Bob Burke to interview Kansas State University.
 - C. Estimated Time to Complete - 5 Man Days.
9. Activity - To determine typical rental agreements for pasture and/or rangeland.
- A. Source of Data - Local owners and/or operators, farm management companies, Kansas Livestock Assn., and Kansas State University Extension Service.
 - B. Proposed Personnel - County appraisers to interview local owners or operators, area fieldmen to interview farm management companies and Bob Burke to gather data from KLA and Kansas State University.
 - C. Estimated Time to Complete - 3 Man Days.
10. Activity - To estimate the landlords share of the gross income that each land class has produced over the past ~~10~~ 8 years.
- A. This is a mathematical process after steps 1 through 9 have been completed. The work would be done in the Department offices and the estimated time to complete is 1 man day.
11. Activity - To determine the typical expenses incurred by the landlord for the various land classes. This analysis would cover a ten year period.
- A. Source of Data - Local owners and/or operators, farm management companies and Kansas State University Extension Service.
 - B. Proposed Personnel - County appraisers to interview local owners or operators, area fieldmen to interview farm management companies and Bob Burke to gather data from Kansas State University.
 - C. Estimated Time to Complete - 12 Man Days.
12. Activity - To estimate the net income that each land class has produced over the past ~~10~~ 8 years.
- A. This is a mathematical process after steps 1 through 11 have been completed. The work would be done in the Department offices and the estimated time to complete is 1 man day.
13. Activity - To process the net income for the various land classes into capital value.
- A. This is a mathematical process after steps 1 through 12 have been completed. It is anticipated that several different capitalization rates would be used to illustrate the change in value that takes place as the capitalization rate changes. The work would be done in the Department offices and the estimated time to complete is 2 man days.
14. Activity - To compare the results indicated by using the "use value" concept with those values now on the assessment rolls.
- A. This procedure is mathematical. It is anticipated that the area fieldmen would assemble the existing values from county records and the comparative analysis would be completed in the Department offices. The estimated time to complete is one man day in the field and two man days in the Department offices.
15. Activity - To compare the results indicated by using the "use value" concept with the estimated market value of the properties appraised.

- A. An exhaustive market data search is not anticipated. However, adequate research will be completed to indicate the probable selling price of subject properties. The estimated time to complete is two days of field work by the area fieldmen and two days of comparative analysis in the Department offices.

The total estimated man days to complete this study for each of the seven counties is as follows:

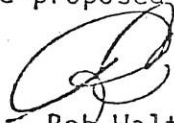
County Appraiser	24 Days
Area Fieldmen	27 Days
Bob Burke	19 Days

It is not anticipated that Bob Burke would need to allocate 19 days for each of the seven counties since his area of research would be mainly concerned with the Crop Reporting Service and Kansas State University Extension Service. It is apparent that more than one county and more than one subject could be explored with each interview.

It is further noted that it would not be necessary for the county appraisers or area fieldmen to work on this project on consecutive days. This work could be spread over a three to four month period thus enabling these people to continue with their regular activities.

It is proposed that I would utilize my time in this endeavor to instruct the personnel involved as to how and what data to collect, to coordinate the efforts of those involved, and to organize, analyze and process the data gathered.

~~A map showing the location of the proposed counties is attached.~~


Bob Walters

RW:cb

cc: Director