

M I N U T E S

SPECIAL COMMITTEE ON USE VALUE APPRAISAL

September 26-27, 1977

Monday, September 26

The meeting was called to order by Chairperson Powell shortly after 10:00 a.m. with all members except Senator Pomeroy and Representative Slattery present. Staff present: Bill Edds, Arden Ensley, Roy Johnson, Richard Ryan and Robert Taylor. Conferees: Dr. Barry Flinchbaugh and Mark Edelman, K.S.U.; Raymond Vaughn, Lyle Clark and Bob Walters, Division of Property Valuation.

On Motion of Senator Mulich, seconded by Senator Simpson, the minutes of the August 15-16 meeting were approved.

Division of Property Valuation Study

Bob Walters presented, and reviewed in detail for one county, a 200-page report on "Use Value Compared With Present Appraised Value and Market Value" covering 97 sections of land located in eight counties. In five counties, the analysis included dryland, irrigated land, and rangeland; in two counties dryland and rangeland; and in one county (Greenwood) only rangeland. In Shawnee County, a special analysis was made of three tracts of land in which a change of use is taking place or is imminent.

Estimated use values for dryland were higher than present appraised values in five counties, and lower in two. Estimated use values for irrigated land were higher than present appraised values in four counties, and lower in one. Estimated use values for rangeland were lower than present appraised values in all eight counties.

In reply to questions, Mr. Walters said that the study indicates how much value change would occur within each of the counties under use value appraisal or appraisal at full market value under proper application of present statutes. It does not compare use values with present assessed values, nor does it have anything to do with changes in tax liabilities.

In reply to other questions, Mr. Walters said that, with Property Valuation Division field men working with the county appraiser, the study proceeded satisfactorily in counties without soil maps, but that it would not be possible to implement the procedures within one year on a statewide basis.

Cloud County Study

Mark Edelman reviewed preliminary data from the Cloud County Study, which included 55 parcels and generally is similar to the DPV study but which also measures the effect of selected variables on the determination of use value: (1) method of estimating net return; (2) determination of crop mix; (3) source of yield information; (4) period of years used; (5) leasing arrangements; and (6) source of cash rental data (pasture land only).

The overall conclusion was that, as in the DPV study, use value for tax purposes would increase the valuation of irrigated and dry land in Cloud County, but the increase would be less under use value than under reappraisal employing the current statutes. Use value appraisal would decrease the valuation of grassland in Cloud County (again like the results of the DPV study).

## Impact Study

Dr. Flinchbaugh reviewed results of the county portion of the impact study, which he described as basically not very different from the 1976 "Yes or No" publication. One difference noted was that the earlier study used five-year averages for productions and costs compared to eight-year averages in the current study. He noted two contributions in the new study: (1) a measurement of the impact of implementing use value without adjusting other property to 30 percent (i.e., "without reappraisal"); and (2) the effect on distribution of school aid if the total amount was held constant. (The school finance part of the study will not be completed until early November.)

Preliminary computer printouts of seven tables were summarized by Dr. Flinchbaugh as follows.

Tables 1-3: 1976 Assessed Valuations Per Acre - Actual, Adjusted to 30 percent, and Estimated at Various Capitalization Rates - Irrigated, Dryland, and Grassland - By Counties.

Irrigated Land (Table 1). Use value appraisal would increase values but by less than would an adjustment to 30 percent of sales price. Differences would be much greater on the urban-rural fringe than in more rural areas.

Dryland (Table 2). Results would be similar to irrigated land but with lesser magnitudes.

Grassland (Table 3). Use value would stabilize or decrease grassland valuations, by greater amounts in fringe areas.

Tables 4-6: 1976 County Taxes Per Acre - Actual, Adjusted to 30 Percent, Estimated at Various Capitalization Rates Assuming (a) Reappraisal of Other (locally assessed real) Property at 30 percent, and (b) Reappraisal of Ag Land Only - Irrigated, Dryland, and Grassland - By Counties.

Irrigated Land (Table 4). Taxes on irrigated land would tend to be stabilized or increased if all locally assessed real property was reappraised at 30 percent, with decreases on the urban fringe. Taxes would increase more if only ag land was reappraised (at use value), but such increases would be less than if values were adjusted to 30 percent of sales price.

Dryland (Table 5). Miami County was used as an illustration, with a reduction if all locally assessed property were reappraised but an increase if only ag land were reappraised.

Grassland (Table 6). The effect generally would be to stabilize or decrease taxes on grassland, even if only ag land were reappraised (at use value). Adjustment to 30 percent of sale price would increase taxes on grasslands.

Table 7: "Tax Shift Table" (1976 County Tax Collections from Agricultural Investment Land as a Percent of County Tax Collections From All Property - Actual, Adjusted to 30 Percent, Estimated at Various Capitalization Rates Assuming (a) Reappraisal of All (locally assessed real) Property and (b) Reappraisal (at use value) of Ag Land Only.)

Again, Miami County was used as an illustration, with agricultural investment land accounting for 16.7 percent of the 1976 county government levy. Adjusted to 30 percent of sale price, ag land would have accounted for 33.8 percent. At a 9.2 percent capitalization rate, the ag land share would have been 11 percent of the total had all locally assessed real property been reappraised, and 19.5 percent had only ag land been reappraised (at use value). Dr. Flinchbaugh commented that data in this table shows why other locally assessed real property should be reappraised at the same time that use value appraisal is instituted. He also expressed the opinion that in the most urbanized counties ag investment land constitutes such a small part of the total that any tax shifting resulting from use value appraisal would be relatively insignificant.

A possible alternative to reappraisal of other locally assessed real property that was mentioned would be use of a higher capitalization rate to reduce potential shifting of taxes to ag land. However, it was noted that with continuing inflation the result of such action could be a tax "brake" that would result in a tax "break".

Staff noted that in some counties with large amounts of state assessed property or oil and gas leases (personal property), or both, the breakdown in Table 7 would not show all of the shifting that could take place among all of the major classes of property.

Tuesday, September 27

The meeting was called to order by Chairperson Powell shortly after 9:00 a.m., with all members except Senator Pomeroy and Representative Slattery present. Staff present: Bill Edds, Arden Ensley, Roy Johnson and Robert Taylor. Conferees: Dr. Flinchbaugh and Mark Edelman, K.S.U.; Raymond Vaughn, Lyle Clark and Bob Walters, Division of Property Valuation.

It was moved by Senator Kerr and properly seconded that those conducting the K.S.U. impact study be requested to expand the key portion of Table 7 (tax shifting) to include a breakdown by the major classes of property. Motion carried. Dr. Flinchbaugh stated that they would check to see if it also would be feasible to show a breakdown within agricultural lands (irrigated, dry, rangeland).

Staff distributed and reviewed briefly excerpts from a "Kansas City Region Prime Agricultural Land/Urban Conversion Study", May, 1976.

#### Review of Bill Draft Additions

Staff submitted an addition to Section 12 of H.B. 2631 (79-1412a) to carry out an August 15 decision to expressly authorize the appraiser to review problems with taxpayers and make changes prior to certification of the tax roll. It was moved by Representative Jarchow and seconded by Representative Hineman that the word "erroneous" be eliminated from the draft. Motion carried.

Another subsection, drafted as an addition to Section 3 of H.B. 2631, would carry out decisions to provide for appeals involving the valuation schedule to go directly to the Board of Tax Appeals and to make the Division of Property Valuation a party in cases involving the use value schedule. After discussion of various dates in the property tax calendar, it was moved by Senator Johnston and seconded by Senator Simpson that some time limit for the filing of appeals be added. Motion carried.

A third draft would add a new section 16 to H.B. 2631, amending K.S.A. 79-1609 to permit the Director of Property Valuation to appeal to the Board of Tax Appeals any order of a county board of equalization. (County appraisers now have such authority.) It was moved by Representative Hineman and seconded by Representative Thiessen that the draft be approved, with clarification of the application of the 45-day limit on filing of such appeals. Motion carried.

A fourth draft added to Section 4 previously adopted revisions relating to the rollback tax, including a 10 percent penalty for failure to give notice of a change in use. It was moved by Senator Simpson and seconded by Representative Jarchow that the draft be amended to permit the county commissioners to waive the penalty for good cause. Motion failed, by a vote of 4 to 5. It was moved by Representative Hineman and seconded by Senator Mulich that the penalty provision be eliminated. Motion failed. After considerable discussion of the values to be used in computing the rollback tax, it was moved by Representative Thiessen and seconded by Representative Hineman that the staff and Division of Property Valuation review this subject and develop alternative language revisions for Committee consideration. Motion carried.

Following further discussion of the language in Section 4 and in the constitutional amendment, it was moved by Senator Simpson and seconded by Representative Jarchow that on this issue the language of Section 4 as drafted be adopted. It was moved by Representative Hineman and seconded by Representative Thiessen that the motion be amended to include the three-year rollback. After more discussion, both motions were withdrawn.

It was moved by Senator Johnston and seconded by Representative Thiessen that the words "not been in agricultural use and had it" be deleted. Motion carried, by a vote of 4 to 3.

It was moved by Senator Simpson and seconded by Representative Jarchow that the eminent domain exclusion be limited to governmental units. Motion carried, with one dissenting vote.

A fifth addition drafted pursuant to prior Committee instructions provided for a penalty of loss of the county government's share of the local ad valorem tax reduction fund for failure to reappraise and to maintain an assessment ratio within 20 percent of the 30 percent statutory standard. Representative Jarchow moved to reconsider this action because of the extreme penalty, suggesting a penalty starting at 10 percent and later increasing to 50 percent, if necessary. There was no second to this motion. It was moved by Representative Hineman and seconded by Representative Thiessen that the entire penalty section be deleted. Motion carried, by a vote of 5 to 2.

Mention was made of the statute (K.S.A. 1976 Supp., 79-1436b) which provides that "in taxable years commencing after December 31, 1978, whenever the director of property valuation shall determine that the coefficient of deviation for any one classification or subclassification of property in a county, as shown by the ratio studies for such year, is greater than 20, he or she is authorized and directed to order all property within the classification or subclassification within such county to be reappraised." While this law "already is on the books," Mr. Vaughn expressed the opinion that its intent needs reaffirmation.

#### Other Business

Three subjects continued from the previous meeting were discussed further. It was reported that as far as protested taxes are concerned, the Division of Property Valuation is a party only if it intervenes. Mr. Vaughn requested that the Division be made an automatic party in cases involving valuation and classification, but not equalization. The staff and Division were asked to take another look and determine whether this has been covered by previous actions, especially as far as protested taxes are concerned.

Copies of statutory sections relating to 10 and 20-year exemptions of farm ponds and adjoining lands were distributed, with a statement that the staff had found no conflict or problem as to their application to lands which might become subject to use value appraisal.

As requested, the Division of Property Valuation submitted suggested language for a notice that might be required to be placed on or included with tax statements for property valued on its use value and hence subject to a potential liability for rollback cases. It was moved by Senator Simpson and seconded by Senator Johnston that the use value bill include a provision for giving notice of such potential rollback tax liability. Motion carried.

Mr. Walters requested further instructions as to what the summary report on the DPV study should include. Agreement was reached on including the preface, description of procedures, eight summary sheets, a one-page summary of the summary sheets, and the data relating to the changing-use parcels in Shawnee County.

Copies of a letter from Senator Steineger raising questions about the proposal to require reappraisal of locally-assessed real property and the effect this might have in shifting to urban real property taxes now paid by state assessed utilities and personal property as well as by agricultural lands were distributed to the Committee members.

#### Irrigated Land Under Use Value Appraisal

The Chairman reported communications from two legislators regarding concerns expressed by irrigators as to the possible impact of use value appraisal, and his assurance that they would be given an opportunity to be heard.

#### Future Meetings

After discussion, it was decided to request Legislative Coordinating Council approval of a two-day meeting on October 24 and 25 and another on November 7 and 8.

It was agreed that part of one day of the October meeting would be devoted to a hearing on irrigation problems. It was moved by Senator Johnston and seconded by Senator

Mulich that one day, or part thereof, of the October meeting be devoted to an explanation by the Division of Property Valuation of the procedures used in valuing state-assessed utilities and motor carriers. Motion carried.

The November meeting will include a report on the school district part of the K.S.U. impact study.

Prepared by Roy H. Johnson

Approved by Committee on:

10/24/77  
(Date)

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