

Approved: April 29, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on March 19, 1999 in Room 519-S of the Capitol.

All members were present except: Rep. Edmonds - excused
Rep. Wilk - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Patty Clark, Director, Public Affairs Division, Kansas Farm Bureau
Mark Nelson, Agricultural Economist, Commodities Division, Kansas Farm Bureau
Terry Arthur, General Counsel, Kansas Farm Bureau

Others attending: See attached list

The Chairman called the committee's attention to **SB 12** when the committee recessed yesterday that there was a motion on the floor by Representative Gregory which was seconded by Representative Palmer, to add to the bill a requirement that valuation notices would not only state the increase in valuation but would indicate what percentage of increase over the previous year's valuation. Questions and discussion followed. Motion failed (motion is stated at end of the minutes of the meeting on March 18, 1999).

The Chairman recognized Representative Campbell who made a substitute motion, and second by Representative Ray, on Representative Palmer's balloon, regarding item (b) that was passed, fourth sentence down, to require better and more informative information be sent out and be sent out on the valuation notice, to substitute the word valuation for hearing. Questions and discussion followed. Motion failed.

The Chairman recognized Representative Palmer who made a substitute motion, and seconded by Representative Johnston, that upon the taxpayer's request for an informal meeting, the county appraiser shall provide the written evidence, statutorily written evidence, substance to the change in valuation pursuant to the criteria in 79-503, if the county appraiser fails to provide such evidence, no change may be made to the value of the property for that taxable year. Questions and discussion followed. Motion failed.

The Chairman recognized Representative Osborne who recommended getting the respective parties involved together with the appraisers, taxpayers and representatives possibly for an interim study.

The Chairman recognized Representative Aurand who made a motion, and seconded by Representative Johnston, to report **SB 12** favorably as amended.

The chairman recognized Representative Palmer who made a substitute motion, and seconded by Representative Gregory, to put "shall" back in and have this only for counties with the population above 50,000. Questions and discussion followed. Motion failed.

The Chairman recognized Representative Aurand who made a motion, and seconded by Representative Johnston, to report **SB 12** favorably as amended. Motion carried.

The Chairman mentioned that several backbones of the Kansas economy, whether it is aviation, oil and gas, or agriculture, are increasing dominated by a global economy in which prices are set, export markets

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on March 19, 1999.

are determined by foreign policy and in many ways the producer in Kansas is held hostage to these global trends that state policymakers need to better understand the situations. The Chairman mentioned that conferees were invited to provide a broader perspective on Kansas agriculture and to allow a context in which to understand some of the decisions in the future and where Kansas revenue sources are coming from in the future.

The Chairman introduced Patty Clark, Director, Public Affairs Division, Kansas Farm Bureau, who gave a presentation regarding "Trends in Food and Fiber Production in Kansas and the United States" (Attachment 1).

Ms. Clark turned the presentation over to Mark Nelson, Agricultural Economist, Commodities Division, Kansas Farm Bureau who gave a presentation regarding "Market Conditions and Economic Outlook in Agriculture" (Attachment 2).

Mr. Nelson turned the presentation over to Terry Arthur, General Counsel, Kansas Farm Bureau, who gave a presentation regarding "Tax Law and Its Impact on Kansas Agriculture" (Attachment 3).

The Chairman thanked Bill Fuller, Associate Director of the Public Affairs Division, Kansas Farm Bureau and the conferees for their helpful presentation. The Chairman opened the meeting to a dialogue with the committee.

The Chairman called the committee's attention to discussion of:

HB 2438 - Real property on which is located facilities utilizing renewable energy resources for generating electricity and personal property used therefor exempt from taxation

The Chairman noted that the "peanut" of the bill, which is contained on page 5 of the bill, focuses on renewable resources and technologies.

The Chairman recognized Representative Osborne who made a motion, and seconded by Representative Flora, to report HB 2438 as favorable for passage. Questions and discussion followed.

The Chairman recognized Representative Aurand who made a substitute conceptual motion, and seconded by Representative Sharp, for language similar to what exists in other property exemption statutes such as predominate use of the property with wording as suggested by Staff. Motion carried.

The Chairman recognized Representative Osborne who made a motion, and seconded by Representative Flora, to report HB 2438 favorably as amended. Motion carried.

The meeting was adjourned at 10:55 a.m.



PUBLIC POLICY STATEMENT

House Committee on Taxation

March 19, 1999
Topeka, Kansas

Presented by:
Patty Clark, Director
Public Affairs Division
Kansas Farm Bureau

Chairman Adkins and members of the House Committee on Taxation, we sincerely appreciate the opportunity you have provided Kansas Farm Bureau to present our views on the health of the Kansas agricultural economy and Kansas tax policy as it relates to our industry.

My introductory remarks are intended to provide insight into the complexities of the food and fiber system when compared to other industries, to outline some of the major trends in agriculture and to provide a framework for the presenters to follow.

To begin we must acknowledge that production agriculture, unlike other manufacturers and businesses, simply cannot pass along our costs of production. According the Kansas Ag Statistics, production expenses for Kansas farmers and ranchers have increased 56% in the last 20 years. Gross farm income, however, has increased from a positive 39% to a negative percentage in the same time frame depending on the cyclical nature of our business. It is also important to note Kansas Farm Management data projects 1998 net farm income will be down by half from 1997. What we are paid, for what we "manufacture" is determined not by our costs, but by supply and demand as well as other variables over which we have no control.

During the last twenty years the number of farms in Kansas have decreased from 77,000 to 64,000 and the size of the average Kansas farm has increased from 629 acres to 747 acres.

House Taxation
3-19-99
Attachment 1

It is also important to note that the average rate of return on investment for production agriculture is a mere 1-2%.

After two years of record yields, our farmers and ranchers are faced with dangerously low prices for all commodities. Soybean prices are 25% lower than one year ago and wheat and corn have dropped more than \$.50 per bushel from 1998 prices. The livestock sector has suffered dramatically as exemplified by \$8.00/cwt. market hog prices recorded in December. And since the end of 1998 the fluid base price of milk has dropped 41%.

At times, it seems that no matter how efficient we are – the factors that impact our markets are totally out of our control. Weather, currency devaluation, unilateral trade sanctions and unfair trade embargoes influence our profitability despite our best efforts at risk management.

Concentration is another issue that alarms the food production sector. The 90's have been marked by a period of acquisitions and mergers. There should be no doubt that competition in the marketplace has been impacted by the concentration in the distribution, processing and retail sectors of the food industry.

Last year Cargill announced its acquisition of Continental Grain's storage and shipping facilities. This merger would increase Cargill's share of total US grain storage to only 16.7%, but when combined with ADM, the two companies would control 33% of grain storage capacity in America. The acquisition would also give Cargill 35% of the nation's terminal storage capacity and even more alarming is that Cargill and ADM will control 75% of global grain trade.

The processing sector mirrors the concentration movement in other industries. The "Big Four" in meat processing (IBP, Cargill, Farmland and Continental) control over 80% of the slaughter in the U.S. Four companies (Cargill, Continental, ADM and Bunge) currently control 62% of the flour milling, 74% of the wet corn milling and 76% of the soybean crush.

In the retail sector concentration continues. The retail prices you as a consumer pay for your food are not reflective of farm gate prices. As a matter of fact, they are conversely proportionate as exemplified by the recent increase of the "Market Basket Price" index.

This retail price index is the total of prices paid for 16 selected grocery items including meat, milk, eggs and other basic commodities. In the first quarter of 1999 the "Market Basket Price" increased 36 cents over the previous quarter and that was the fourth consecutive

increase in the index. You are paying more for your food at a time when farm gate prices are at historical lows.

Another trend is the explosion of the application of biotechnology in production agriculture in the past decade. Gene modification and the ability to transfer disease resistance, chemical resistance, drought resistance and other beneficial characteristics to the crops we grow will dramatically change our management practices.

However, our producers are concerned there is growing domestic and international unease with the use of science and genetic modification by the food industry, despite sound scientific data that reinforces the benefits.

Also of concern is the concentration of gene ownership and technology patents in the hands of a small and dwindling number of large companies. We potentially face the scenario where we purchase our inputs from a small number of corporations and then sell what we grow to a concentrated number of buyers.

A positive for production agriculture is the growing movement toward producer based cooperatives taking ownership positions in value added food and fiber processing companies. Marketing cooperatives and processing cooperatives have the ability to dramatically change our producers' investment portfolios and create a greater return on investment than we historically have derived.

On a national level, despite the financial precipice on which our producers stand, Congress and the administration seem stymied over long-standing issues of expanding CRP, eliminating ridiculous trade barriers, establishing trade negotiating authority and providing support for critical agricultural programs.

Agriculture is a business to our producer members, not a lifestyle. When our producers are profitable, the Kansas economy and rural communities are the beneficiaries.

I would like to close with a quote from Governor Bill Graves' State of the State address.

According to Governor Graves, "All of Kansas should be concerned with the plight of the men and women in agriculture and oil sectors of the economy. Kansas farmers and stockmen are the best in the world, yet their reward has been the collapse of value for their products in the market place."

Thank you and we will be happy to take questions at the end of our presentation.

Kansas Agriculture, 1999

Mark Nelson
Agricultural Economist
Kansas Farm Bureau 

Key Agricultural State

Crop	- Production -		- U.S. Share -	
	mil. bu.	mmt.	percent	rank
Wheat	495	13.5	19.4%	1
Grain Sorghum	264	6.7	50.8%	1
Sunflower*	267	0.1	5.1%	3
All Hay*	8	7.3	5.3%	3
Corn	419	10.6	4.3%	8
Soybeans	75	2.0	2.7%	10

*sunflower (millions of pounds), all hay (millions of tons)

Key Agricultural State

Crop	# of hd:	- U.S. Share -	
		percent	rank
Cattle on Feed	2,110	19.8%	2
Beef Cows	1,506	4.5%	7
Hogs & Pigs	1,590	2.6%	10
Dairy Cows	84	0.9%	27

*data in thousands of head

Key Ag Exporter

Crop	mil. \$\$:	- U.S. Share -	
		percent	rank
Wheat & Prod.	\$ 498	11.5%	1
Feeds/Fodder	\$ 189	10.4%	3
Sunflower	\$ 26	10.0%	3
Feed Grains	\$ 608	7.2%	5
Total	\$1,321		

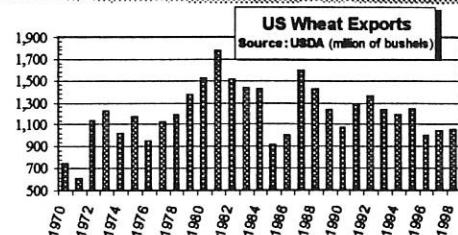
KS Ag Statistics, "1998 Kansas Farm Facts"

Key Ag Exporter

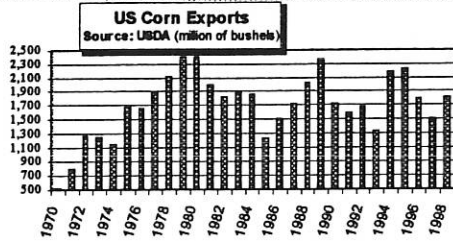
Crop	mil. \$\$:	- U.S. Share -	
		percent	rank
Hides & Skins	\$ 283	16.7%	2
Animals & Meat	\$ 628	12.8%	3
Fats & Grease	\$ 85	16.2%	2
Total	\$ 996		

KS Ag Statistics, "1998 Kansas Farm Facts"

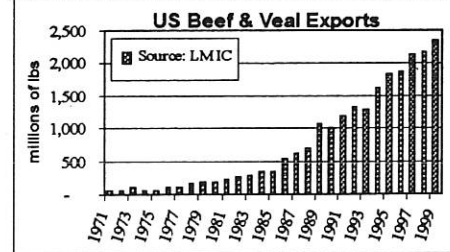
But While Exports Volumes Are Up



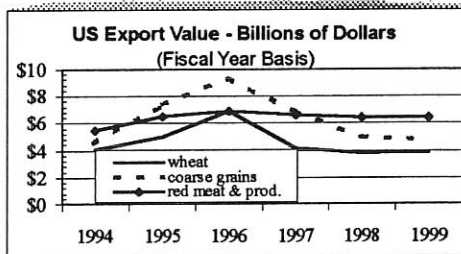
But While Exports Volumes Are Up



But While Exports Volumes Are Up



Ag Export Values Are Flat to Weak



Successful Trade Depends On



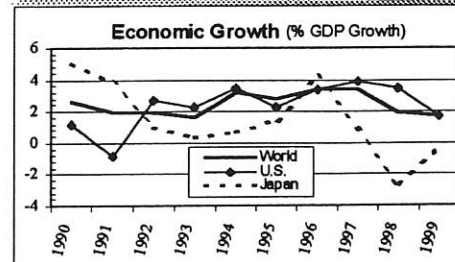
- ① Developing/Maintaining Demand
 - a Consuming public
 - b Disposable Income
- ② Matching production growth with export growth (demand)

The Consuming Public

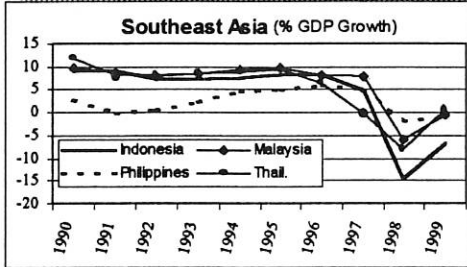


	Population In millions	% of the World	Growth since "80"
U.S. & Can.	297	5.1%	17.9%
Europe	508	8.7%	5.0%
Asia	3,477	59.4%	32.8%
Africa	750	12.8%	58.9%
Latin Am.	496	8.5%	35.9%

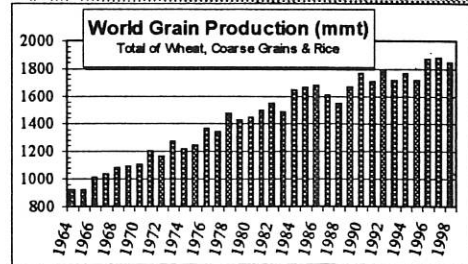
Disposable Incomes are Likely to Fall



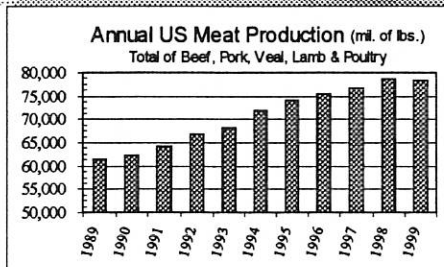
Disposable Incomes are Likely to Fall



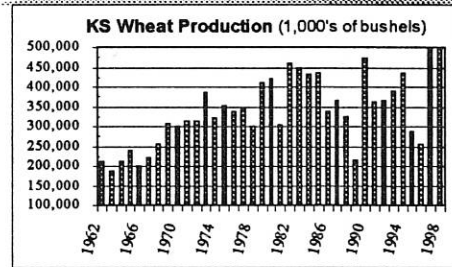
And at the Same Time, Production is High



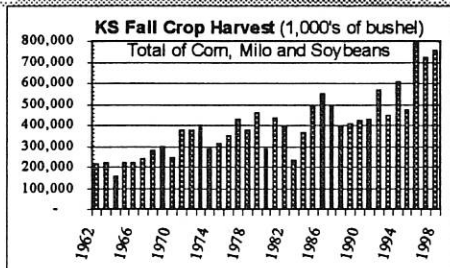
And at the Same Time, Production is High



Production is High in Kansas Too



Production is High in Kansas Too



More Production & Less Demand Has Hurt Prices

February Average Prices

	Salina Wheat	Dodge Corn	Topeka Beans	W. KS Steers
1996	\$5.49	\$3.90	\$7.13	\$62.95
1997	\$4.30	\$2.62	\$7.58	\$65.26
1998	\$3.38	\$2.57	\$6.55	\$60.66
1999	\$2.73	\$1.98	\$4.72	\$62.13

In 1999, Kansas Farmers May Plant for the LDP

	<u>LR</u>	<u>VC</u>	<u>TC</u>	<u>Net to</u>
Beans	\$5.07	\$2.49	\$4.10	\$0.97
Milo	\$1.69	\$1.17	\$1.83	(\$0.14)
Corn	\$1.98	\$1.29	\$1.96	\$0.02
Wheat	\$2.55	\$1.96	\$3.12	(\$0.57)

Likely Worsening the Supply Situation

MarketSense Analysis - Corn

(Millions of Ac. / Bu.)

	'98 Mar	1999a	1999b	1999c
Beginning Stocks	1308	1711	1711	1711
Acres Planted	80.2	80.0	79.0	79.0
Harvested	72.6	73.6	72.7	72.7
Yield	134.4	130.0	130.0	123.5
Production	9,761	9,568	9,451	8,978
Imports	12	12	12	12
TOTAL SUPPLY	11,081	11,291	11,174	10,701
Feed & Residual	5,700	5,650	5,650	5,650
Other Domestic Use	1,870	1,900	1,900	1,900
Exports	1,800	1,890	1,890	1,800
TOTAL USE	9,370	9,440	9,440	9,350
Ending Stocks	1,711	1,851	1,734	1,351

The "Average" Kansas Farm in 1999

- What is "Average"?
 - ▮ variability by type of farm
 - ▮ variability by size of farm
 - ▮ variability by location within the county and across the state
- Average of 2,783 KS Farm Units
 - ▮ Source: KSU Farm Management Association

The "Average" Kansas Farm in 1997

- \$ 79,679 Livestock Income
- \$138,470 Crop Income
- \$250,396 Gross Farm Income
- \$174,210 Cash Operating Expenses
- \$ 59,350 Net Farm Income
- \$ 24,666 Return to Labor & Mgt.
 - ▮ Source: KSU Farm Management Association

"Return to Labor and Management"

- Net Farm Income
- Less:
 - ▮ A Return to Net Worth
 - ▮ The Estimated Value of "Family Labor"
- "Individual Farmer's Paycheck"

Estimating 1999 Profits

- Start with the "Average" Farm
- Adjust for:
 - ▮ Crop Yields & Prices, Livestock Prices
 - ▮ Minor Changes in Production Costs
- Resulting in a rough estimate of expected returns for an average Kansas Farm for 1999

Estimating 1999 Profits

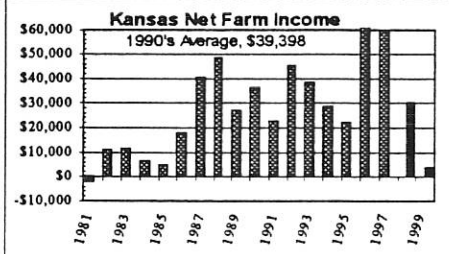
Livestock Prices	% of T	1997	1999
Beef (calves)	61%	\$74	\$74
Swine (fed hogs)	5%	\$54	\$35
Dairy (milk)	5%	\$13	\$11

% of T, is the percentage of total farms that had the particular enterprise.

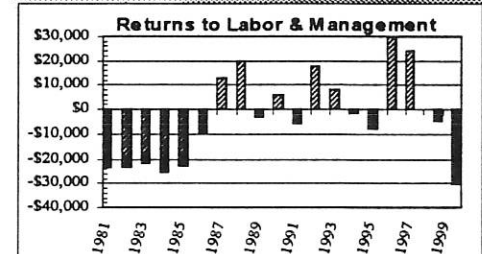
Estimating 1999 Profits

Crop Prices	% of T	1997	1999
Wheat	81%	\$3.16	\$2.55
Corn	36%	\$2.47	\$1.98
Grain Sorg.	67%	\$2.23	\$1.69
Soybeans	52%	\$6.50	\$5.07
Alfalfa Hay	35%	\$74	\$65

Estimating 1999 Profits



Estimating 1999 Profits



MarketSense Analysis - Wheat

(Millions of Ac. / Bu	'98 Mar	1999a	1999b	1999c
Beginning Stocks	722	955	955	955
Acres Planted	65.9	61.8	60.9	60.9
Harvested	59.0	55.6	54.7	54.7
Yield	43.2	40.3	40.3	38.3
Production	2,550	2,241	2,204	2,095
Imports	95	90	90	90
TOTAL SUPPLY	3,368	3,286	3,249	3,140
Feed & Residual	350	325	350	325
Other Domestic Us	1,013	1,025	1,025	1,025
Exports	1,050	1,100	1,100	1,050
TOTAL USE	2,413	2,450	2,475	2,400
Ending Stocks	955	836	774	740
ES/Use	39.6%	34.1%	31.3%	30.8%

MarketSense Analysis - Corn

(Millions of Ac. / Bu.	'98 Mar	1999a	1999b	1999c
Beginning Stocks	1308	1711	1711	1711
Acres Planted	80.2	80.0	79.0	79.0
Harvested	72.6	73.6	72.7	72.7
Yield	134.4	130.0	130.0	123.5
Production	9,761	9,568	9,451	8,978
Imports	12	12	12	12
TOTAL SUPPLY	11,081	11,291	11,174	10,701
Feed & Residual	5,700	5,650	5,650	5,650
Other Domestic Use	1,870	1,900	1,900	1,900
Exports	1,800	1,890	1,890	1,800
TOTAL USE	9,370	9,440	9,440	9,350
Ending Stocks	1,711	1,851	1,734	1,351
ES/Use	18.3%	19.6%	18.4%	14.5%

MarketSense Analysis - Wheat Seedings

(Millions of Ac. / Bu	1998	1999a	1999b
Beginning Stocks	722	980	980
Winter Wheat Ac.	46.4	43.4	43.4
Spring Wheat Ac.	19.4	18.4	17.5
Harvested	59.0	55.6	54.7
Yield	43.2	40.3	40.3
Production	2,549	2,241	2,206
New Crop Supplies	3,271	3,221	3,186
TOTAL SUPPLY	6,542	6,442	6,371

MarketSense Analysis - Soybeans

(Millions of Ac. / Bu.	'98 Mar	1999a	1999b	1999c
Beginning Stocks	200	470	470	470
Acres Planted	72.4	73.4	74.4	75.4
Harvested	70.8	71.9	72.9	73.9
Yield	38.9	37.1	37.1	35.2
Production	2,757	2,669	2,705	2,601
Imports	6	6	6	6
TOTAL SUPPLY	2,963	3,144	3,180	3,077
Feed & Residual	153	150	150	150
Crush	1,560	1,600	1,600	1,600
Exports	780	820	820	780
TOTAL USE	2,493	2,570	2,570	2,530
Ending Stocks	470	574	610	547
ES/Use	18.8%	22.3%	23.7%	21.6%

March 18, 1999

The tables on this page attempt to depict a range of potential US grain supply and demand outcomes based on various acreage and yield scenarios.

REVIEW OF AGRICULTURAL TAX CONCERNS IN KANSAS

I. Income Tax Concerns

Kansas law on income taxation has been designed to follow the Internal Revenue Code. However, there are some major differences between the Internal Revenue Code and Kansas income tax statutes which are important to farmers and ranchers. Those are as follows:

a. The Internal Revenue Code allows for a maximum tax rate on capital gains of no higher than 20%. For persons in the 15% ordinary tax bracket for federal purposes, the maximum rate is 10%. Kansas does not have a maximum rate for capital gains and they are subject to ordinary income rates up to a maximum of 6.45%. This is extremely important for farmers and ranchers who are involved in the sale of capital assets, such as real estate and livestock, that qualify for capital gains treatment. This makes taxation on capital gains for Kansas income tax purposes much greater percentage-wise than federal taxation for the same income when overall rates are compared between federal and state.

b. The Internal Revenue Code allows for a three-year carryback on losses incurred in business. The Kansas Tax Code allows for no loss carrybacks. Diversity in farm income from year to year makes this an important provision for Kansas farmers.

c. The Internal Revenue Code allows for income averaging for farmers and ranchers. No averaging is allowed under Kansas income tax law. This is important for Kansas farmers, because of fluctuation of farm income from year to year.

II. 1999 Proposed Legislation

Kansas Farm Bureau supports H.B. 2037 which provides for exemptions from sales tax for original construction, repair and replacement of grain storage facilities including railroad sidings which provide access to such facilities. We also support the exemption from sales tax for materials and services purchased by short line railroads for construction, repair and maintenance of their tracks and facilities.

At the present time, there are not adequate grain storage facilities in the State of Kansas, nor railroad transportation to move grain. Any type of incentive that will help store and move Kansas grain will not only benefit the farm economy, but the state economy as a whole. These sales tax exemptions will help to encourage construction of grain storage and transportation facilities.

House Taxation
3-19-99
Attachment 3

III. Use Value Appraisal of Farm Real Estate

By allowing taxation to be based upon productivity, the property tax is more closely aligned with the ability of the property to produce.

IV. Personal Property Tax Exemptions

Farm machinery and equipment are exempt from personal property taxation by virtue of Kansas statutes. This was recognized by the Legislature as a necessity, in that farmers and ranchers are unable to pass along their costs as part of the products they sell.

The following statement is made in K.S.A. 79-201i:

“Farming and ranching operations require the investment of large sums of capital for the purpose of providing the land on which the operations are conducted, and the farm machinery and equipment necessary to satisfactorily carry out such endeavors. Because of agriculture’s unique requirements of substantial capital investment, the property tax burden becomes a deterrent to such investment and, in some instances, an encouragement to farm and ranch abandonment. Kansas, and all its citizens, will benefit from any improvement in the economic environment of Kansas agriculture. The exemption from the ad valorem property tax of farm machinery and equipment actually and regularly used in farming and ranching operations will constitute an incentive to agriculture and will improve the general economy of the state. Considering this state’s heavy reliance on agriculture, the enhancement of agricultural endeavors is deemed to be a public purpose which will promote the general welfare of the state and be for the benefit of the people of the state.”

V. Sales Tax Exemptions

Some of the inputs that farmers put into their products are exempt from sales tax. This is because those inputs are part of the creation of the product, and like other areas in Kansas sales tax, are exempt from taxation until the final product is sold. The price of farm machinery and equipment has become so excessive in the past few years, that it would even be more difficult for farmers and ranchers to update their machinery and equipment, if they were required to pay sales tax on equipment.

VI. Inheritance Tax

The Kansas Legislature in the 1998 Session repealed the Kansas Inheritance Tax law and in its place established the Kansas Estate Tax law. This will be helpful to all

segments of the Kansas economy. This change will allow for easier transfer of farms and ranches to succeeding generations.

CONCLUSION

The changes made in the past few years to exempt portions of Kansas agricultural real and personal property from certain taxes, and reduce the taxes in other areas, have been important to keep farming and ranching in parity with other segments of the economy. With the decline in farm and ranch income, additional costs by way of taxation, which are not able to be passed along to those persons to which agricultural commodities are sold, must be maintained at the very lowest level in order for agriculture to survive.

It is important to the agricultural community for the income tax laws for the State of Kansas in the agricultural area, to be similar to the Internal Revenue Code. As such, it is recommended that the Legislature look into adopting provisions similar to that set forth previously herein.

Agriculture must keep a close eye on the mill levies established for both education and state and county taxation. Dramatic increases in mill levies, will cause a decline in overall farm income because farmers are required to have a sufficient amount of real property to make their operation succeed, and higher mill levies will cause additional taxation and further decline in farm income.

Respectfully submitted,

Charles S. Arthur, III
General Counsel