

Approved: 1-27-00
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Steve Morris at 10:00 a.m. on January 26, 2000, in Room 423-S of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Legislative Research Department
 Jill Wolters, Revisor of Statutes
 Nancy Kippes, Committee Secretary

Conferees appearing before the committee:

 Alan Alderson, Western Retail Implement and Hardware Association
 Laura Johnson, Deputy Director, Property Valuation Division, Kansas Department of Revenue

Others attending: (See Attached)

Senator Clark made a motion to approve the minutes of the January 25, 2000 meeting. Senator Stephens seconded. The motion carried.

Alan Alderson, Western Retail Implement and Hardware Association, requested introduction of two bills that would clean up consistency in existing statutes (Attachment 1).

The first bill would require warranty work performed by dealers of farm equipment, outdoor power equipment or lawn and garden equipment to be reimbursed at an hourly rate equal to or greater than what the dealer charges to consumers for non-warranty repair work. Currently the dealership does not have the right to be reimbursed at its normal rate. Senator Clark made a motion to introduce this bill. Senator Umbarger seconded. Motion carried.

The second bill seeks to make certain provisions of the buyback laws uniform with regard to each type of equipment (farm equipment, outdoor power equipment, lawn and garden equipment). Senator Corbin made a motion to introduce this bill. Senator Biggs seconded. The motion carried.

Laura Johnson, Deputy Director, Property Valuation Division, Kansas Department of Revenue, answered questions and concerns from committee members regarding appraisal methods of agricultural land. Handouts were distributed explaining the calculation of agricultural land use value (Attachment 2). Mark Beck, Director of Property Valuation Division, will address the committee on February 2, 2000 and make available to the members the current set of values for each county, as well as a flow chart as to the formula for determining agricultural land valuation.

The next meeting will be January 27, 2000.

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MEMORANDUM

TO: Members, Senate Agriculture Committee

FROM: Alan F. Alderson, Legislative Counsel, Western
Retail Implement and Hardware Association

RE: Request for Legislation

DATE: January 26, 2000

Thank you for giving me the opportunity to appear on behalf of Western Retail Implement and Hardware Association to request two pieces of legislation for introduction by the Senate Agriculture Committee. The details of this proposed legislation can be presented at the time of the hearing on these bills, so I will only endeavor to provide you with a short, general overview of what we are asking you to introduce.

1. **Reimbursement for Warranty Work.** This proposed legislation would require warranty work performed by dealers of farm equipment, outdoor power equipment or lawn and garden equipment to be reimbursed at an hourly rate equal to or greater than what the dealer charges to consumers for non-warranty repair work. Current contracts with many manufacturers, wholesalers or suppliers would not afford the dealership the right to be reimbursed at its normal rate.

2. **Fair Dealership and Buyback Statute Amendments.** There are currently three separate sets of laws that deal with the regulation between manufacturers and dealers of (a) farm equipment, (b) outdoor power equipment and (c) lawn and garden equipment. They are found in Articles 10, 12, 13 and 14 of Chapter 16 of the Kansas Statutes Annotated.

We are seeking to make certain provisions of the buyback laws uniform with regard to each type of equipment. In general, the changes would do the following:

Senate Agriculture
1-26-00
Attachment 1

1. Provisions of the laws which require manufacturers or suppliers to repurchase parts and equipment would apply whether or not the dealership agreement was cancelled by the manufacturer or the dealer. [Now, only the lawn and garden equipment law applies when a dealer terminates the agreement.]

2. The buyback laws would all require manufacturers or suppliers to pay 100 percent of the net cost on new equipment and 95 percent on new repair parts. [Now, farm equipment is 100%/85%; outdoor power equipment and lawn and garden equipment is 90%/90%].

3. The manufacturer or supplier would be required to pay 5 percent for handling, packing and loading unless the supplier elects to perform those functions itself. [This provision now only applies to farm equipment].

4. Payments required to be made under all laws would be due in 60 days. [This provision now only applies to farm equipment].

5. The current provisions which would not require repurchase of repair parts and broken or damaged packages or single repair parts priced as a set would be eliminated. [None of the current laws include these exclusions].

6. The current provisions which would not require equipment purchased more than 12 months before termination to be repurchased, would be extended to 24 months. [Now, both the farm equipment law and the outdoor power equipment law are already at 24 months].

Your agreement to sponsor the introduction of these bills would be greatly appreciated.

By Robert C. Walters *

Mass Appraisal of Agricultural Land Using the Income Approach

The appraisal of agricultural property is no different in theory from the appraisal of any type of property. However, in practice, the procedures used to appraise agricultural land are different in some respects. For example, when we appraise a single-family dwelling, we have one structure with, perhaps, an attached or detached garage. The dwelling has one function, to provide a home or shelter. It is not too difficult to determine what the market value is for that property based on sales of other similar properties. Keep in mind that it would be very unusual to make a value determination for the various component parts of this residence, such as a separate value for the basement, first floor, and second floor. The property is valued as a whole taking into consideration all of the factors which affect value.

Agricultural land must be approached in a somewhat different manner. A particular agricultural property, with one owner, may have several uses. Even though each is related to the production of agricultural products, the market value for each use may vary substantially. For instance, in the state of Kansas, it would not be unusual to encounter an agricultural property consisting of dryland, irrigated land, and grassland.

* Mr. Walters is Supervisor of Real Estate, Division of Property Valuation, Topeka, Kansas.

Historically, the market data approach has been used by appraisers on agricultural properties. The cost approach is generally not applicable unless the improvements contribute to the overall value, and the income approach is regarded by some as too cumbersome to use, especially in a mass appraisal assignment encompassing all of the "ag" property within a county or state. We do not subscribe to this theory. In fact, we believe that the income approach, if properly applied, will produce a reliable estimate of value and will achieve the best degree of equalization.

The 1985 Kansas legislature passed legislation requiring the appraisal of all real property effective 1 July 1985 with completion by 1 January 1989. The law directs that agricultural land shall be valued based on its productive capability. Following long-standing appraisal practices, we have developed procedures to implement this "use value" provision (income approach). Appraisal practices, however, have been modified because it would be impractical to develop an income stream for each agricultural unit in the state. We believe our method can be used in other states.

Identification and Classification

The identification and classification of agricultural land is the most difficult part of the appraisal. Regardless of which approach is used, the process of identification is time-consuming and the skills required to identify and

record physical characteristics for agricultural land cannot be learned quickly.

The adage, "you can't tell a book by its cover," certainly applies to agricultural land. What you see on the surface may be substantially different from what lies two or three inches below the surface. Crops are not grown on the surface. To be productive, the roots of most crops grown in the Midwest will penetrate the soil twelve to eighteen inches; with legumes, such as clovers and alfalfa, the tap roots may go as deep as four to six feet.

Rangeland and pastureland present another problem. There may be thousands of acres of rangeland which appear to be the same early in the spring, but, seldom, if ever, is it all the same. You will usually find several different range sites on that acreage, each capable of producing different amounts of forage, resulting in different values for each of those range sites. Therefore, identifying "what is there" is the tricky part in the appraisal of agricultural land.

Soil surveys prepared by the United States Department of Agriculture, Soil Conservation Service, can provide the appraiser with some information about what lies beneath the surface. Soil surveys relate soil types to eight land capability classes. Classes I through IV relate to dryland, class V to meadow, classes VI and VII to rangeland, and class VIII to non-productive (with respect to agricultural products) land. There are four capability subclasses associated with each major class;

Senate Agriculture
1-26-00 March/April 9
Attachment 2

therefore, there are thirty-two possible land capability classes.

If all county assessors and appraisers were soil scientists, the published soil survey, together with a physical inspection of the property, are all that would be needed to properly identify and classify the land. However, most of us are not soil scientists and, even if we were, we do not have the credibility needed in the farm and ranch community. Therefore, to bring expertise and credibility into our agricultural land appraisal program, we entered into a joint agreement with the State Soil Conservation Service. This agreement provides, in part, for the Soil Conservation Service to associate the various soil types in each county with production capabilities and to place the soil types having similar capabilities into one of several groups.

The per bushel or per ton yields associated with the various soil types are established on a ten-year average and, for the purpose of this assignment, it makes little difference what ten-year period is selected, because we are establishing a relationship between the various groups. Any crop common to the area could be used; however, we have elected to use the major crop grown in each county.

In most cases, we will have six or seven groups of soils, with each group having similar production capabilities (it is unnecessary to have the same number of groups in each county). An example of this procedure follows. Note that the illustration shows only two groups of soils, when, in fact, six groups of soils have been identified in this county (figure 1).

Figure 1
Illustration: Grouping soil types based on production capabilities.
County: Harvey
Category: Cultivated Dryland
Major Crop: Wheat

Group I		
Symbol	Name	Yield
Fc	Farnum loam, 0 to 1 percent slope	39
De	Detroit silty clay loam	38
Gc	Geary silt loam, 0 to 1 percent slope	38
Ka	Kaski loam	38
Group II		
Symbol	Name	Yield
Fa	Farnum fine sandy loam, 0 to 1 percent slope	37
Cr	Crete silt loam, 0 to 1 percent slope	37
Fd	Farnum loam, 1 to 3 percent slope	37
Gd	Geary silt loam, 1 to 3 percent slope	36
La	Ladysmith silty clay loam, 0 to 1 percent slope	36

Rangeland and pasture must be identified in a different manner. Therefore, the Soil Conservation Service is grouping the various soil types in each county into "range sites" and providing the stocking rate for each of the various range sites. The stocking rate is based on "animal unit months per acre" (AUM's/AC), which is a common denominator that can be used to forecast the potential carrying capacity for a given range or pasture. This unit is then equated with a cash rent based on "dollars per animal unit month,"

which provides an estimate of total gross income for any given range or pasture. Most of the grassland in Kansas and other Midwestern states, is leased on the basis of dollars per acre or dollars per grazing season for one animal unit. This does not pose a problem because cash rent per acre can easily be converted to dollars per animal unit month, assuming that the stocking rate is known.

We feel that the procedures adopted for the identification of rangeland and pasture will result in a fair and uniform appraisal of all grassland in the State of Kansas. As with cropland, these procedures are predicated on the productive capability of the various range sites found in each county. An illustration of this procedure is shown in figure 2.

The agreement with the Soil Conservation Service to associate the various soil types with productivity in all counties accomplishes two major goals. First, the Soil Conservation Service has the expertise, and their credibility is recognized in the agricultural community. Secondly, because a single entity is doing the work for the entire state, the best possible degree of uniformity is achieved.

The Soil Conservation Service has categorized the various soil types into groups based on normal or typical situations. However, there are exceptions to almost everything, and their efforts will not eliminate the responsibilities of the county assessor or appraiser in the identification and classification process. Two illustrations of exceptions which require individual and separate analysis are as follows.

Cropland —There is some cultivated

What is the Value of

- An Electric Power Plant?
- A Natural Gas System?

Are Present Assessment Levels Supportable?



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Figure 2
Illustration: Grouping soil types based on carrying capacity.

County: Chase
Category: Rangeland
Major Crop: Grass

Range Sites—Group A	Mapping Units	Stocking Rates
Loamy Lowlands	Ar Os	1.5 to 1.8 AUM's/AC.
Clay Lowlands	Ch Ra	
	Iv	
Range Sites—Group B		
Loamy Upland	Fa Lm	.9 to 1.0 AUM's/AC
Clay Upland	Fm Lo	
A few complexes	Ic Ma	
	Ir	
Range Sites—Group C		
Limey Upland	Cs Le	.65 to .8 AUM's/AC.
A few complexes	Ld Ze	
Range Sites—Group D		
Claypan	In	.45 to .65 AUM's/AC.
Flint Ridge	Is	
Shallow Limey	Le	

land in Kansas that has a heavy infestation of noxious weeds which will prohibit typical yields, even though the various soil types could have typical potential productive capacity if the noxious weeds were not present.

Grassland—The projected stocking rates assume an adequate and continued supply of water. An inadequate supply of water would affect the stocking rate, rental rate, or both.

Developing a Net Income Stream

After the identification and classification process has been completed, a net income stream must be developed for each of the various irrigated, dryland, and grassland groups of soils. This involves thirteen separate steps, some related to data gathering. We present the procedures used to estimate net income in a logical sequence, although information does not necessarily have to be acquired in this order.

1. Determine the typical cropping

practice within a given county, weighting the major crops according to their importance.

It would not be feasible to attempt to analyze each and every farm operation to determine cropping practice. Also, cropping practices can change from year to year. Therefore, the total acres harvested of all crops grown in each county are determined, and the major crops are then weighted according to their importance. We believe that the procedure will reflect the typical cropping practice in that county. The percentage weight of those major crops will be used later to weight gross income and expenses. An illustration of this procedure follows. The crops and acres harvested are the actual 1984 figures, taken from a county in south central Kansas.

Crop	Acres Harvested	% of Total
Wheat	121,000	51
Sorghum	84,000	36
Corn	5,000	
Soybeans	12,000	5
Oats	2,800	
Alfalfa	18,100	8
Total	235,100	100%

In this instance we do not consider corn and oats to be major crops; therefore, those acres are deleted from the calculation of percent weight of

the major crops compared to total acres harvested.

2. Determine the commodity price paid for various commodities averaged over the past eight years. The commodity prices are the weighted prices averaged over the past eight years. The Crop Reporting Service, on a monthly basis, gathers information relating to mid-month prices paid and number of bushels or tons marketed. The reporting is done by district, except for corn, soybeans, and alfalfa, which are reported on a statewide basis.

The mid-month price paid multiplied by the percentage of crops sold in a particular month will produce the weighted price and will reflect the actual cash flow into a particular crop reporting district for each crop. It is recognized that all producers do not sell their commodities at the same time and some carry over part of the crop from one year to the next. However, this procedure takes into account the sale of commodities at different times, and carry-over will not distort the result because we are estimating the typical gross income that a particular acre of land is capable of producing, assuming a median level of management.

3. Determine the typical production level for crops common to the county and average the production over the past eight years. Production levels have to be established for each of the dry and irrigated land classes.

There are several sources available regarding yields for the various crops common to a particular area. However, most of the published data are based on countywide averages for a particular crop. We, therefore, believe that the best information regarding typical yields will come from interviews with local owners and operators.

4. Estimate the total gross income for each of the dry and irrigated land classes. This is simply a process of multiplying the average yield per acre by the average price paid.

5. Determine the typical landlord-tenant agreement for each of the major crops common to the area. This involves the determination of the percent of landlord's share of the total crop and the percent of landlord's share of expenses.

Landlord-tenant agreements can vary from county to county and crop to crop, and can change from year to year as a result of changing economic conditions. This step is extremely important because we are estimating the landlord's share of net income that can be derived from a particular acre of land.

6. Estimate the weighted landlord's gross income per acre for the various dry and irrigated land classes. This involves the process of establishing the typical gross income per acre for the various crops grown on each of the land classes. This amount is then multiplied by the cropping-practice weight for each crop and then multiplying that amount by the landlord's percent share, which will produce the weighted landlord's share of gross income.

An illustration recognizing that the same crop is not grown on the same land year after year is shown in figure 3.

7. Estimate the eight-year average of landlord's share of expenses for the various crops grown on the several land classes.

8. Determine the weighted landlord's expenses per acre for the various crops grown on dry and irrigated land classes.

The production expenses incurred by the landlord are weighted in the same manner as the gross income, recognizing that the landlord's share has already been accounted for in step seven.

9. Estimate the net income received by the landlord for the various land classes. This is simply a process of subtracting the weighted expenses from the

weighted gross income.

10. Process the net income into capital value by dividing the net income, for each of the various land classes, by a capitalization rate to be determined.

11. Determine the gross cash rent paid for the various rangeland classes. The gross cash rent is an average of that amount paid over the past eight years.

For illustrative purposes, we will assume that the average gross cash rent over the past eight years is \$10.05 per AUM. If we know the number of acres contained within each range site, and if the stocking rate is known, the gross income for this hypothetical pasture is shown in figure 4:

12. Estimate the typical landlord's expenses for each of the rangeland classes. This amount is an average of those expenses incurred over the past eight years.

13. Deduct the expenses from the gross income for each of the various rangeland classes and process the net income into capital value.

We believe that the procedures outlined above will produce a reliable estimate of the typical net income that the landlord can expect to receive from one acre of each of various land classes, assuming that yields and production costs reflect actual experience.

Although this process may appear to be complicated and time consuming, we believe that the results justify the effort required. Further, the appraisals can be easily maintained and updated, because each year we eliminate the first year of income and expenses and add the current year.

Figure 3

Group II: Dryland soils

Crop	Gross Income/AC.	Cropping Practice Wt.	Landlord's % Share	Weighted Landlord's Share of Gross Income
Sorghum	\$149.50	42%	40%	\$25.12
Wheat	128.39	34	40	17.46
Soybeans	180.88	13	40	9.41
Corn	178.22	11	40	7.84
Total Landlord's Share of Gross Income				\$59.83

Figure 4

Range Site	Acres	× Stocking Rate	× Rental/AUM	= Gross Income
A	680	1.65 AUM/AC.	\$10.50	\$11,781.00
B	310	.9 AUM/AC.	10.50	2,929.50
C	214	.7 AUM/AC.	10.50	1,572.90
D	76	.55 AUM/AC.	10.50	438.90

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CALCULATING AGRICULTURAL LAND USE VALUE

Our task is to establish the value of agricultural land based on the agricultural income or productivity attributable to the inherent capabilities of the land. That income is then capitalized to arrive at a "use" value.

These basic steps are followed:

1. Determine the following components:
 - a. Crop mix. Data source: KAS Area used: County - dryland; District - irrigated
 - b. Value of the crop. Data source: KAS Area used: District
 - c. Yield of the crop. Data source: KAS Area used: County - dryland; District - irrigated
 - d. Expenses incurred. Data source: K-State Area used: District
 - e. Net income. Data source: K-State Area used: County - dryland; District - irrigated
2. Net Income:
 - a. What share of net income is received by landlord for dryland and irrigated land?

	Data source: K-State	Area used: County - dryland; District - irrigated
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 - b. What net rental income is received by landlord for pasture?

	Data source: KAS	Area used: District
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 - c. Net income data is smoothed by averaging 8 yr. averages.

	Data source: K-State	Area used: District
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3. Soil map unit data adjusts the values to specifically reflect the productive capability of a particular soil type.

	Data source: NRCS	Area used: County
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4. Establish capitalization rate. Data source: FCB Area used: State
 - a. Cap rate is smoothed using a five yr. average. PVD
 - b. Cap Rate is adjusted for county rural levies. PVD
5. Apply cap rates to the eight year average net incomes to determine agricultural use value. PVD
6. Counties are provided values per acre by soil type. Values applied to each parcel by counties.

	Data source: PVD	Area used: Parcel
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7. For irrigated land, counties apply a water ratio table to adjust values by soil type to reflect availability of water.

	Data source: K-State, DWR	Area used: Parcel
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Sources:

FCB - Farm Credit Bank of Wichita
 K-State - Kansas State University
 PVD - Property Valuation Division

KAS - Kansas Agricultural Statistics, Department of Agriculture
 NRCS - Natural Resource Conservation Service
 DWR - Division of Water Resources

Kansas Agricultural Statistics Crop Reporting Districts

