



March 15, 2023

To: Senate Committee on Assessment and Taxation
From: Randy Stookey, SVP of Government Affairs & General Counsel, Randy@Kansasag.org
Kansas Grain and Feed Association | Renew Kansas Biofuels Association
Re: **Joint Neutral with Concerns Testimony on Senate Bill 274, requiring the use of the cost approach for special purpose property for property tax valuation purposes.**

Chair Tyson and members of the committee, thank you for the opportunity to provide testimony on Senate Bill 274. This testimony is submitted jointly on behalf of the Kansas Grain and Feed Association (KGFA) and Renew Kansas Biofuels Association (Renew Kansas). KGFA is the state association of the grain receiving, storage, processing, and shipping industry in Kansas. Renew Kansas is the trade association of the Kansas biofuels industry.

The grain and biofuels industries contribute to the Kansas economy by employing Kansans across the state and paying millions of dollars annually in property taxes that help fund schools and local government. In recent years, however, that property tax burden has grown considerably. Additionally, the issue of proper classification of our industry machinery and equipment has been an on-going and costly legal dispute.

Last June, our industry received a [Kansas Court of Appeals decision](#)¹ where the court clarified that grain handling industrial machinery and equipment should be classified as personal property for property tax purposes rather than as fixtures to the realty. This was a major change in how appraisers had previously classified grain industry assets and will require significant changes to the Property Valuation Division (PVD) grain industry guide.

For ad valorem property tax purposes, Senate Bill 274 would require an appraiser to use the cost approach (cost when new less depreciation) when finding fair market value of special purpose properties such as grain elevators and biofuel facilities. Additionally, the bill would prohibit appraisers from considering the value of the business when assessing fair market value.

We support the intent of this bill to provide more clear legislative guidance to appraisers when assessing special purpose properties. We also completely agree with the express exclusion of “blue sky” or other business value when assessing these properties. Specifically, use of the income valuation approach is often inaccurate and inappropriate for assessing these properties.

However, requiring use of the cost approach is also not feasible at times, such as now, when the cost of new construction is highly inflated. Use of such metrics during high inflationary periods can unreasonably distort the assessment of similar existing structures. At those times, the best valuation methodology to find fair market value is generally the comparative sales approach.

¹*Dodge City Coop. Exch. v. Bd. of Cnty. Commissioners of Gray Cnty.*, 62 Kan.App.2d 391, 516 P.3d 615 (Kan. App. 2022)

While the bill does not prohibit use of the comparative sales approach, it does unnecessarily elevate the cost approach to a level which might allow an appraiser to argue that it is the legislatively preferred valuation method, even if use of this method were to result in a drastically elevated and distorted valuation of a property when compared to the value found using the comparative sales method.

We have discussed these unintended consequences with the bill's proponents and have agreed to work together to find language to achieve their goals without causing economic harm to other special purpose properties.

Thank you for allowing us the opportunity to testify with our concerns on Senate Bill 274. For the reasons stated, we would ask the committee not take further action on the bill at this time, but allow the stakeholder group additional time to work on the proposal.