KANSAS LIVESTOCK ASSOCIATION

Since 1894

To: House Committee on Taxation
Rep. Steven Johnson, Chair

From: Aaron M. Popelka, V.P. of Legal and Governmental Affairs, Kansas Livestock Association

Re: **HB 2376, AN ACT concerning property taxation; relating to cities and counties, approval of budgets, notice and election requirements.**

Date: March 16, 2017

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing nearly 5,200 members on legislative and regulatory issues. KLA members are involved in many aspects of the livestock industry, including seed stock, cow-calf and stocker cattle production, cattle feeding, dairy production, swine production, grazing land management, and diversified farming operations.

Thank you, Chairman Johnson and members of the Committee, my name is Aaron Popelka and I am with the Kansas Livestock Association (KLA). KLA opposes HB 2376, which would effectively repeal the property tax lid on certain units of local government. KLA Policy Resolution #1 states, in part: "The Kansas Livestock Association supports local government funding through the use of sales and/or income tax rather than property taxes." In addition, the KLA Board of Directors voted to oppose any attempt to repeal the property tax lid at our annual legislative meeting in February.

HB 2376 seeks to destroy a compromise that was reached and overwhelmingly approved by both houses of the Kansas legislature last year. If passed, this legislation, based on past behavior of local governmental units, would result in a substantial property tax increase on KLA members. The proponents' complaints about the existing tax lid have yet to even materialize because the lid has not been effective for a full year. Many local units of government agreed to the compromise now in law, and it is disingenuous for these entities to seek changes to the law before it has even had a full year of operation.

The multi-year tax increases felt by KLA members, as a result of many counties' previous inability to control spending, has been substantial. As the Committee is aware, agriculture is taxed based on the income producing potential of agricultural land. The formula used to calculate valuation for agricultural land is commonly known as the use-value formula. In basic terms, it is an eight-year moving average of commodity prices compared to expenses, adjusted for the prevailing interest rate. This formula typically has a two-year delay to allow for data collection. As a result, despite record low net farm income in 2016, agricultural land valuations are at an all-time high. *See* Table #1 and Chart #1. Since reaching a recent low of $1,157,765,721 in 2010, total statewide agricultural land valuations reached $2,258,884,035 in 2016, a 95 percent

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increase in six years. *See* Table #1 and Chart #1. At the same time, however, rural mill levies have increased as well. *See* Table #1 and Chart #1. The statewide average rural mill levy in 2010 was 119.858 mills, but has risen to 130.425 mills in 2016, an 8.8 percent increase in six years. When the statewide rural mill levy increases are combined with the total statewide agricultural land valuation, total tax liability for agricultural land has risen by 112 percent in six short years. *See* Table #1 and Chart #2. The Kansas Department of Revenue also expects valuations for agricultural land to increase again in 2017 and 2018.

When valuations increase as substantially as the values have for agricultural land, it should mean the counties, especially those counties with a substantial amount of agricultural land tax base, should reduce the mill levies to keep revenue and spending within the rate of inflation. In most instances, this has not happened. As demonstrated in Table #1 and Chart #3, the change in the Consumer Price Index (CPI) has stayed between a range of 3.2 and 0.10 percent. The change in tax liability on agricultural land since 2011, however, has increased substantially more than the CPI, reaching a high of more than 20 percent in 2015. See Table #1 and Chart #3.[1]

The current property tax lid is a needed tool to force counties to adopt proper budgeting techniques to keep spending in line with inflation. Prior to imposition of the property tax lid, the counties' system of budgeting was backwards compared to any business. A business, like a farm or ranch, typically looks at projected revenues for the next year and adjusts its expenses accordingly. Counties, however, review the ideal spending levels submitted by various departments, approve the spending levels, and then the county clerk sets the county-wide mill levy. This has led to significant spending increases by many counties. The property tax lid, forces the county commission to examine the previous year's revenue, plus cost of inflation, and correspondingly adjust expenses, less the generous exemptions allowed in statute. Rather than simply signing off on a department's ideal spending levels, the property tax lid forces the county commission to look for and reduce unneeded spending.

While HB 2376 does not fully repeal the property tax lid in current law, it effectively makes it moot. The standard sought by the proponents would shift the burden of justifying tax increases away from local units of government and onto taxpayers. Given the year-after-year tax increases above inflation that have been allowed by many counties, requiring a protest petition on an annual basis would be a significant burden on taxpayers who are busy running their businesses and taking care of their families. If counties and other local government cannot contain spending within the CPI, the burden should fall on government to justify additional expenditures, not on the taxpayer.

Thank you for the opportunity to appear before the Committee. KLA asks the Committee to reject HB 2376 or any other attempt to weaken the property tax lid put in place by the Kansas legislature last year.

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[1] Data used in the above testimony can be found on the Kansas Department of Revenue, Property Valuation Division website, at http://www.ksrevenue.org/pvdstatistics.html (last visited March 15, 2017).

Kansas Agricultural Land Valuation Trends

Table #1

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Avg. Statewide Rural Mill Levy	105.053	108.403	111.365	114.899	119.858	121.185	121.898	124.15	122.849	127.386	130.425
% Change in Rural Mill Levy	0.73%	3.19%	2.73%	3.17%	4.32%	1.11%	0.59%	1.85%	-1.05%	3.69%	2.39%
Total KS Assessed Ag Land Valuation	$1,538,688,979	$1,420,418,646	$1,302,160,053	$1,197,624,263	$1,157,765,721	$1,180,359,923	$1,284,037,041	$1,447,404,205	$1,700,015,539	$1,973,564,874	$2,258,884,035
% Change in Ag Valuation	-3.44%	-7.69%	-8.33%	-8.03%	-3.33%	1.95%	8.78%	12.72%	17.45%	16.09%	14.46%
Total KS Ag Land Tax Liability	$161,643,893.31	$153,977,642.48	$145,015,054.30	$137,605,830.19	$138,767,483.79	$143,041,917.27	$156,521,547.22	$179,695,232.05	$208,845,208.95	$251,404,535.04	$294,614,950.26
% Change in Ag Tax Liabilty	-2.72%	-4.74%	-5.82%	-5.11%	0.84%	3.08%	9.42%	14.81%	16.22%	20.38%	17.19%
% Change in CPI	3.20%	2.80%	3.80%	-0.40%	1.60%	3.20%	2.10%	1.50%	1.60%	0.10%	1.30%

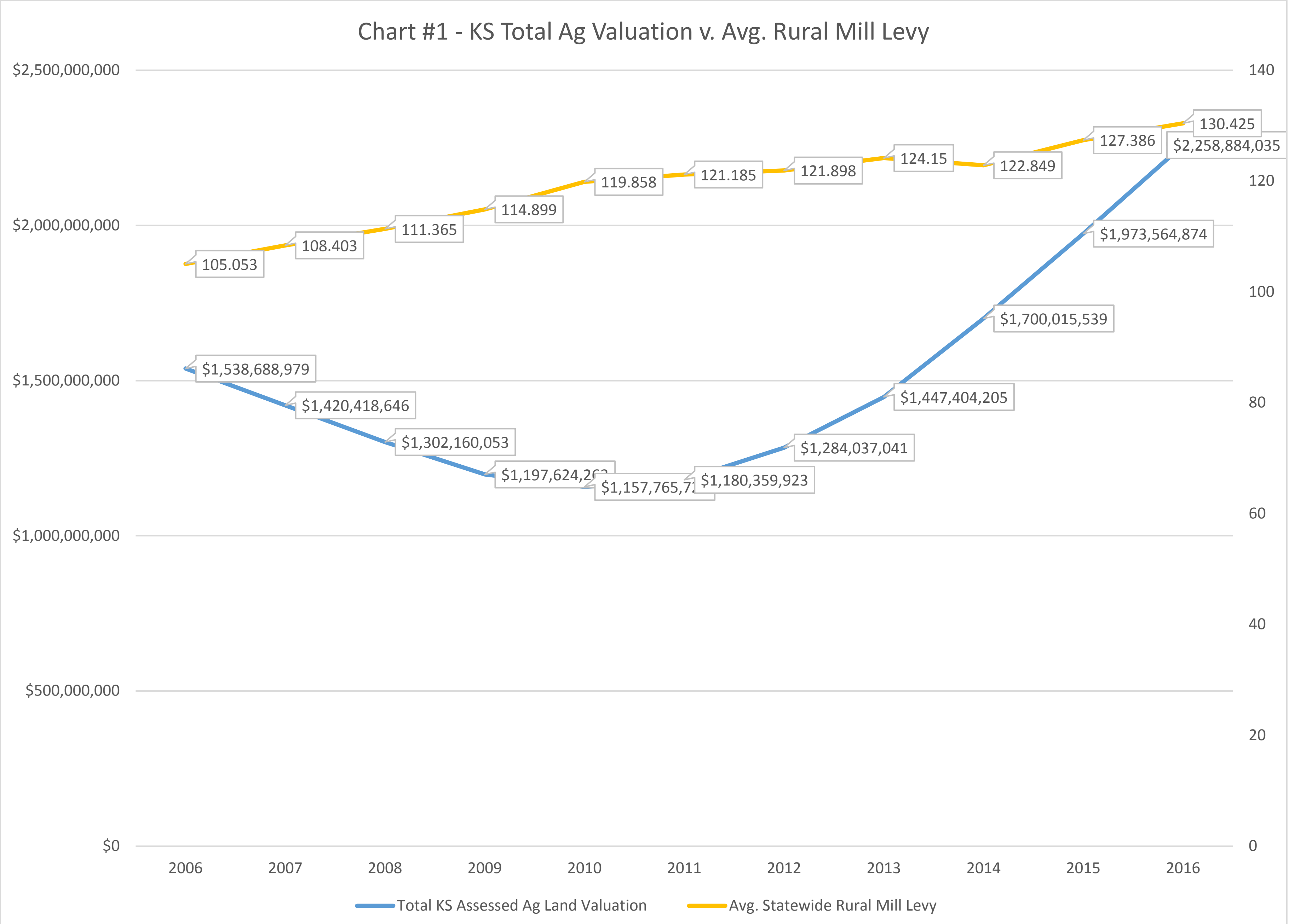
Chart #1 - KS Total Ag Valuation v. Avg. Rural Mill Levy
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
140
120
100
80
60
40
20
0
105.053
108.403
111.365
114.899
119.858
121.185
121.898
124.15
122.849
127.386
130.425
$1,538,688,979
$1,420,418,646
$1,302,160,053
$1,284,037,041
$1,180,359,923
$1,447,404,205
$1,700,015,539
$1,973,564,874
$2,258,884,035
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Total KS Assessed Ag Land Valuation
Avg. Statewide Rural Mill Levy

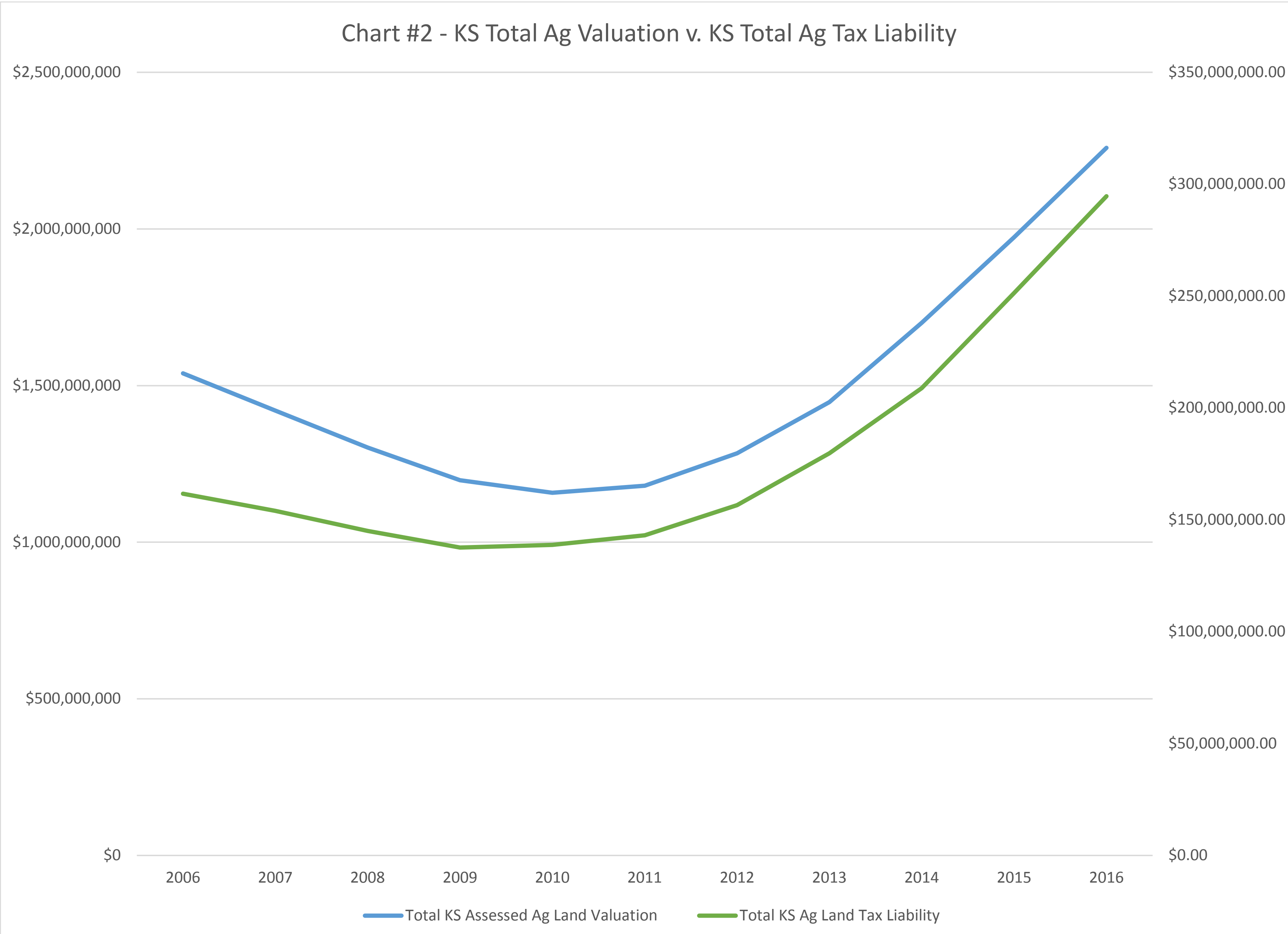
Chart #2 - KS Total Ag Valuation v. KS Total Ag Tax Liability
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
$350,000,000.00
$300,000,000.00
$250,000,000.00
$200,000,000.00
$150,000,000.00
$100,000,000.00
$50,000,000.00
$0.00
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Total KS Assessed Ag Land Valuation
Total KS Ag Land Tax Liability

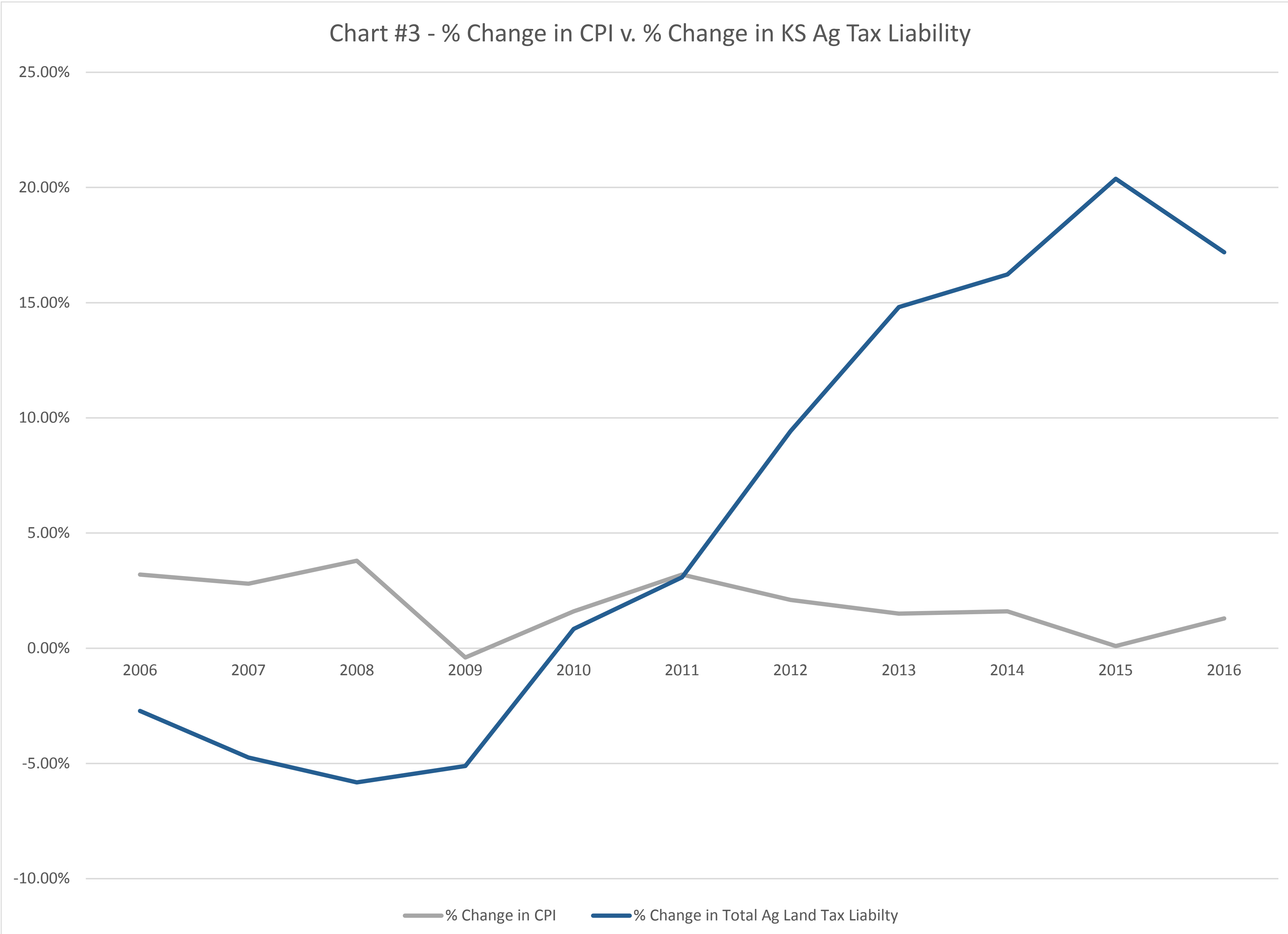

Chart #3 - % Change in CPI v. % Change in KS Ag Tax Liability
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
% Change in CPI
% Change in Total Ag Land Tax Liabilty