





2021 Agricultural Net Income Situation for Property Tax Calculations

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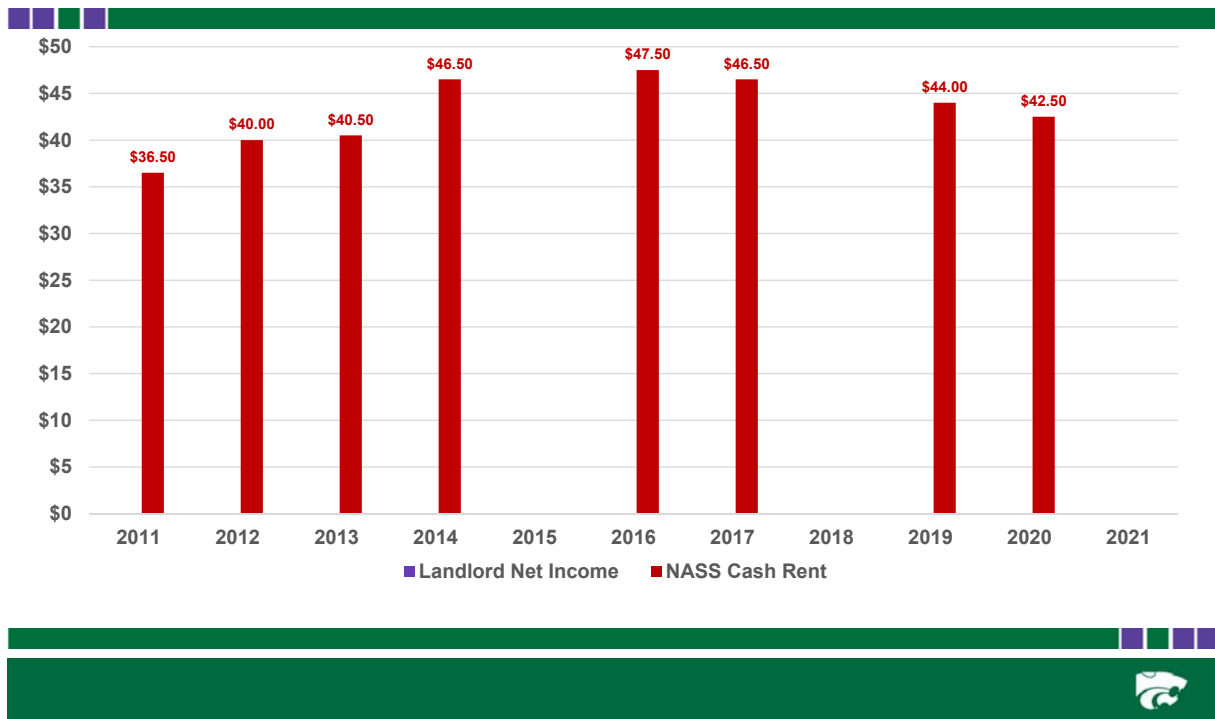
Introduction



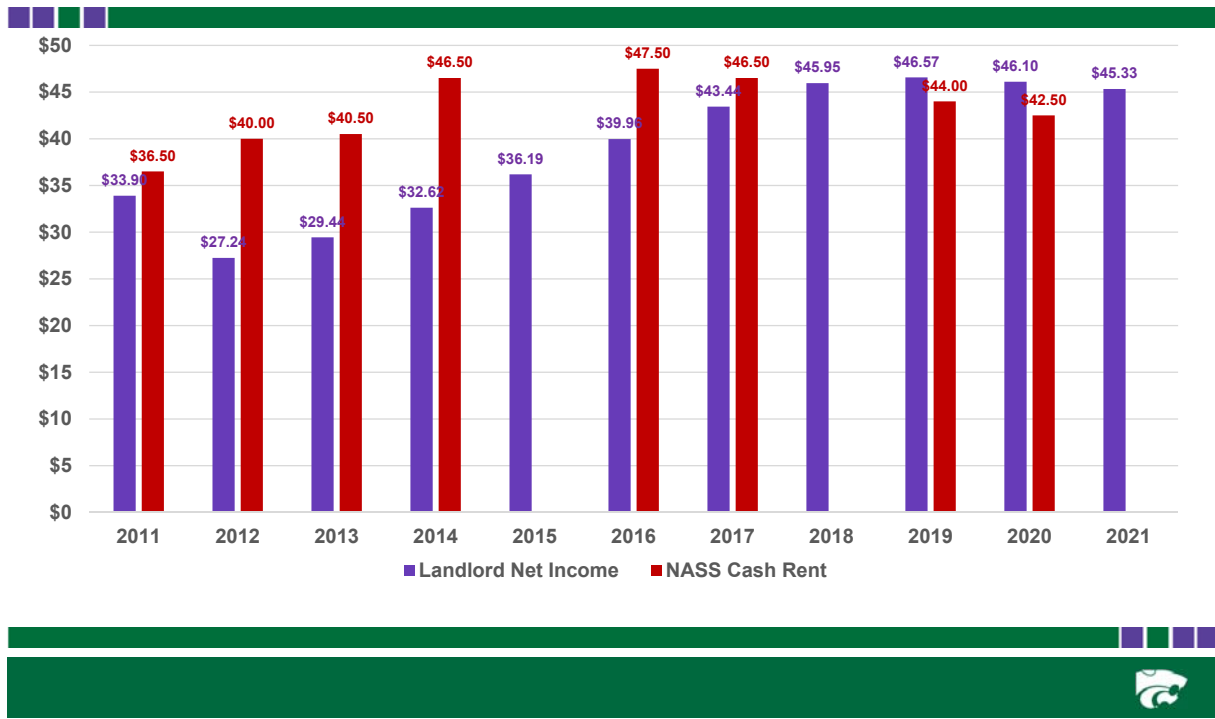
- Paradox between Expected Returns to Land and Property Tax Appraisals
 - Calculation of Landlord Net Income for Property Tax Considerations
 - Current Situation
 - Impact of Alternative Formula Change
 - Change from 8 year moving average to 8 year average
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Cash Rent and Landlord Net Income Barton County



Cash Rent and Landlord Net Income Barton County



Definition of the Landlord Net Income

- **Process set forth in K.S.A. 79-1476**

The share of net income from land in the various land classes within each county or homogeneous region which is normally received by the landlord shall be used as the basis for determining agricultural income for all land devoted to agricultural use except pasture or rangeland. The net income normally received by the landlord from such land shall be determined by deducting expenses normally incurred by the landlord from the share of the gross income normally received by the landlord. The net rental income normally received by the landlord from pasture or rangeland within each county or homogeneous region shall be used as the basis for determining agricultural income from such land.

Definition of the Landlord Net Income

- **Process set forth in K.S.A. 79-1476**

The net rental income from pasture and rangeland which is normally received by the landlord shall be determined by deducting expenses normally incurred from the gross income normally received by the landlord. Commodity prices, crop yields and pasture and rangeland rental rates and expenses shall be based on an average of the eight calendar years immediately preceding the calendar year which immediately precedes the year of valuation.

Definition of the Landlord Net Income

- **Process set forth in K.S.A. 79-1476**

Net income for every land class within each county or homogeneous region shall be capitalized at a rate determined to be the sum of the contract rate of interest on new federal land bank loans in Kansas on July 1 of each year averaged over a five-year period which includes the five years immediately preceding the calendar year which immediately precedes the year of valuation, plus a percentage not less than 0.75% nor more than 2.75%, as determined by the director of property valuation, except that the capitalization rate calculated for property tax year 2003, and all such years thereafter, shall not be less than 11% nor more than 12%.



Definition of the Landlord Net Income

- **Process set forth in K.S.A. 79-1476**

The term "expenses" shall mean those expenses typically incurred in producing the plants, animals and horticultural products described above including management fees, production costs, maintenance and depreciation of fences, irrigation wells, irrigation laterals and real estate taxes, but the term shall not include those expenses incurred in providing temporary or permanent buildings used in the production of such plants, animals and horticultural products.



Definition of the Landlord Net Income

- Landlord's share is computed
- Yields are adjusted by soil quality normalized to the county average
- Crop mix is made up of crops with 5% more of the total planted acres in a county
- Government program payments are excluded



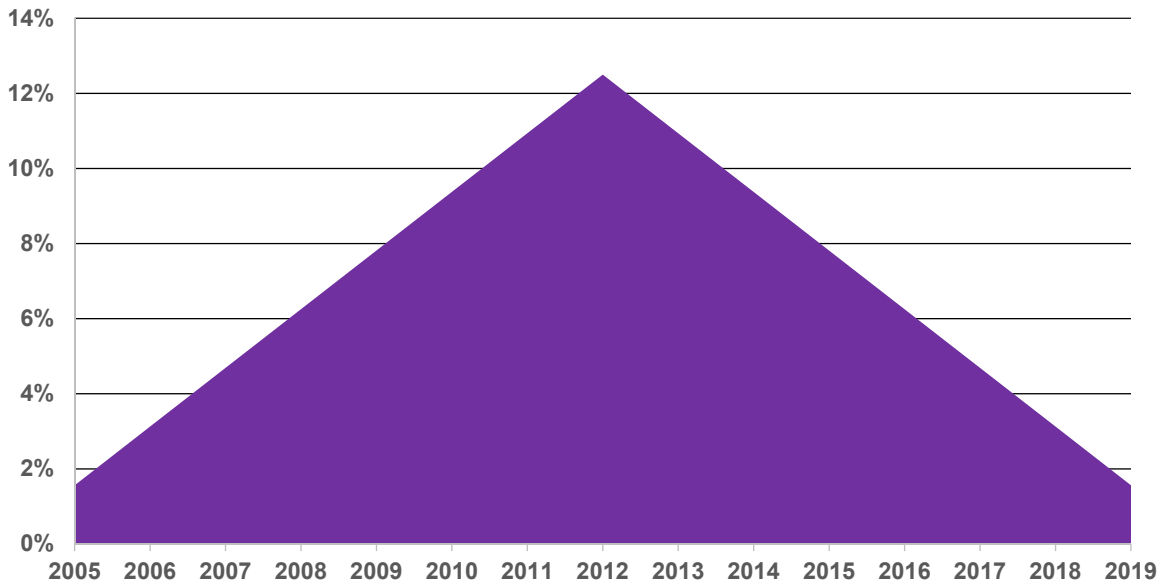
Property Tax Computation

- Defined as the eight year average of eight year average of return to landlord
- This eight year average is then capitalized at the statute defined capitalization rate
- Process places a weight on middle years of the process
- Designed to have a more smoothing effect on tax values
 - Goal is to remove the variability of year to year changes
- Landlord net return made up of last 15 years return to the landlord
 - The 2021 Landlord Net Income made up of individual values from 2005 - 2019

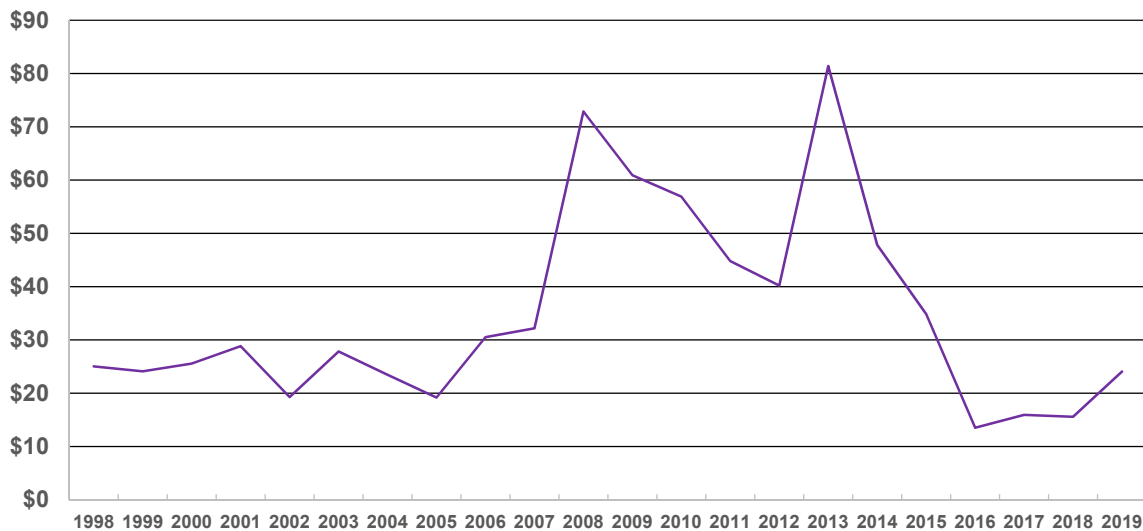


Property Tax Computation Process

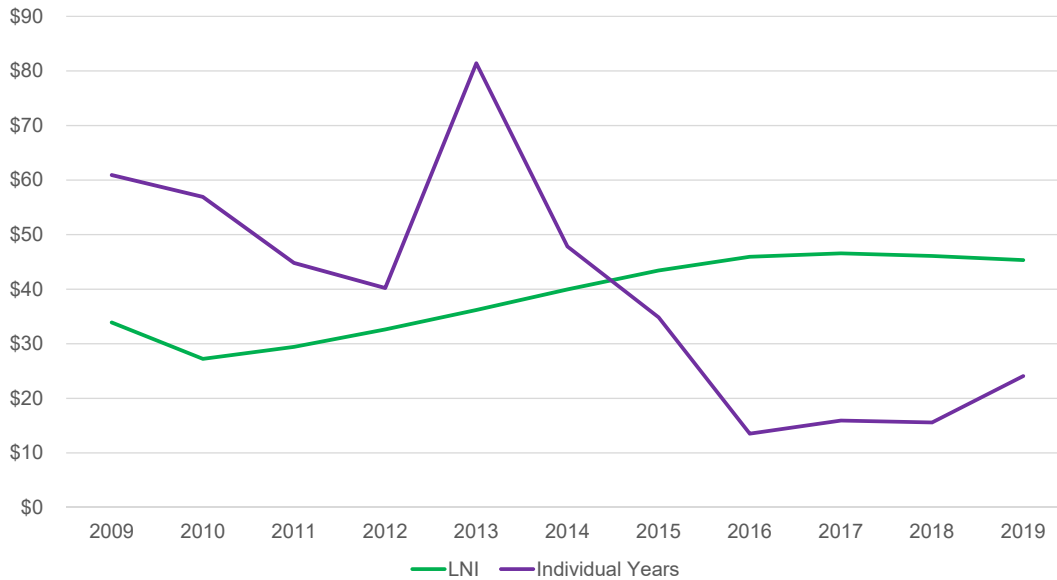
Eight Year Average of an Eight Year Average



Non-irrigated Single Year Landlord Return for Barton County, 1998 - 2019 (Central Kansas)



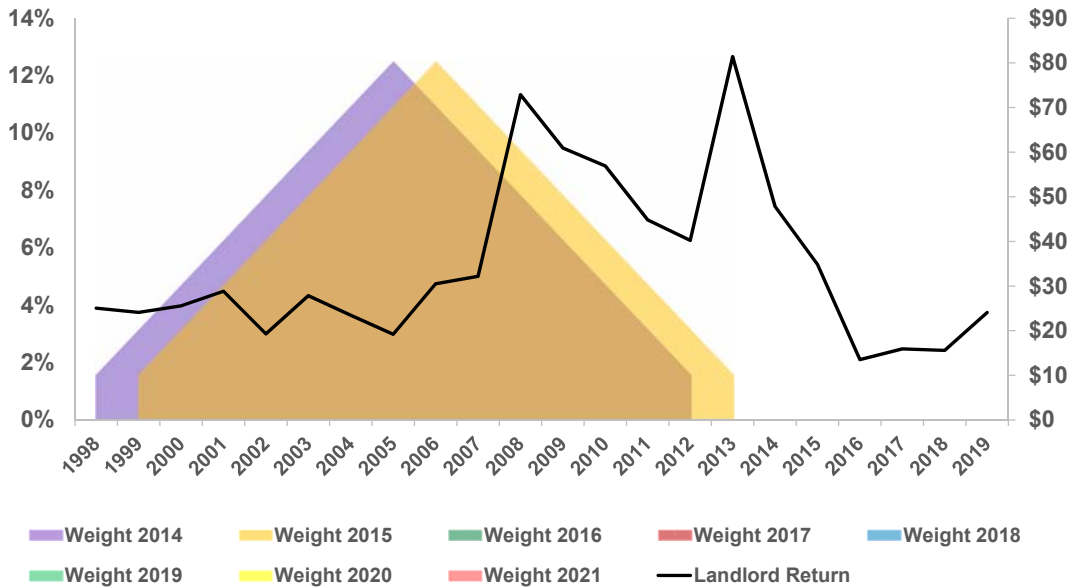
Non-irrigated Single Year Landlord Return and LNI for Barton County, 2009 - 2019



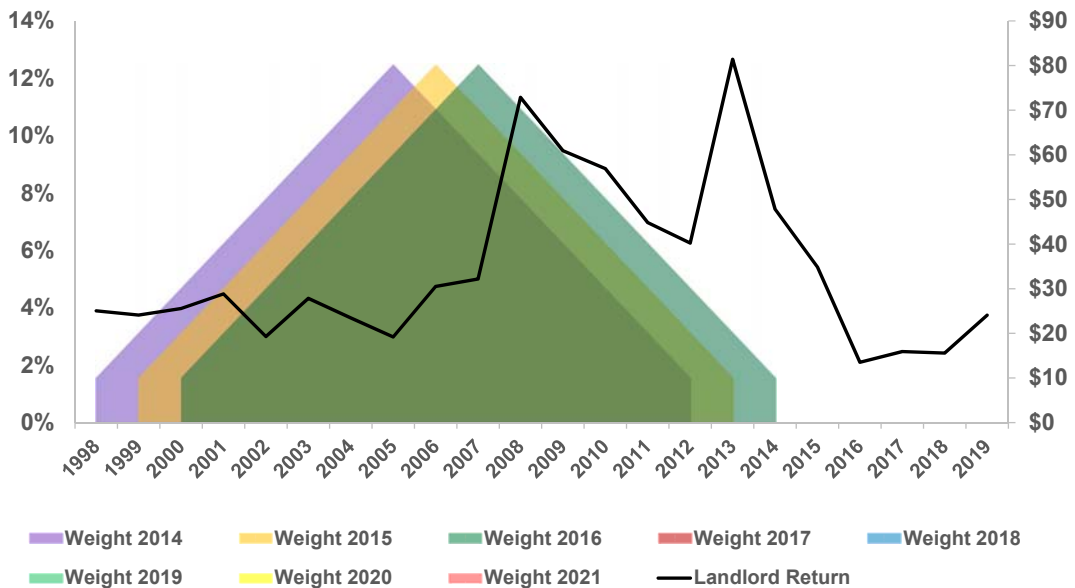
Non-irrigated Computation Process for Barton County



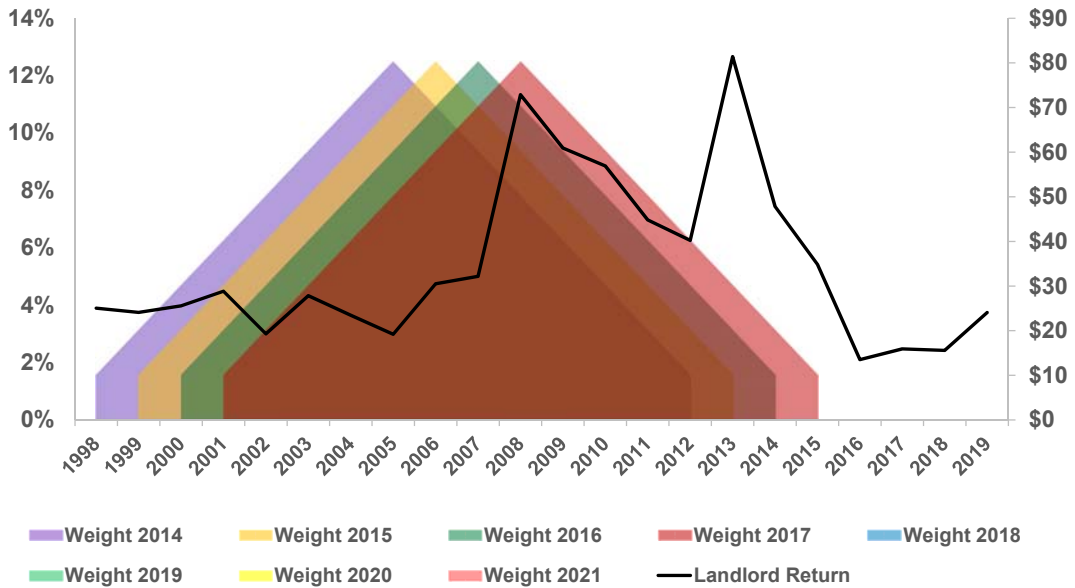
Non-irrigated Computation Process for Barton County



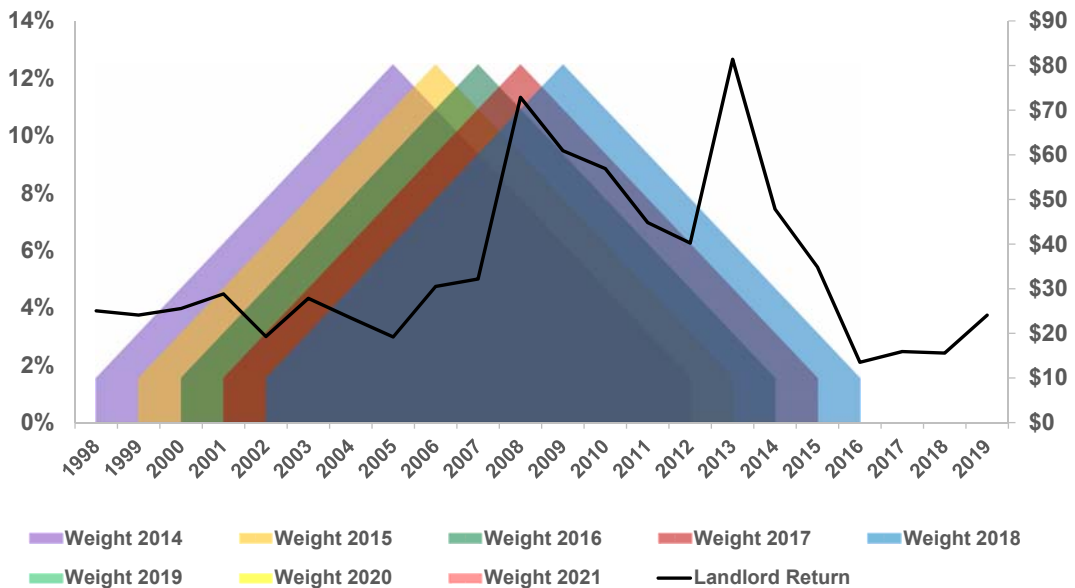
Non-irrigated Computation Process for Barton County



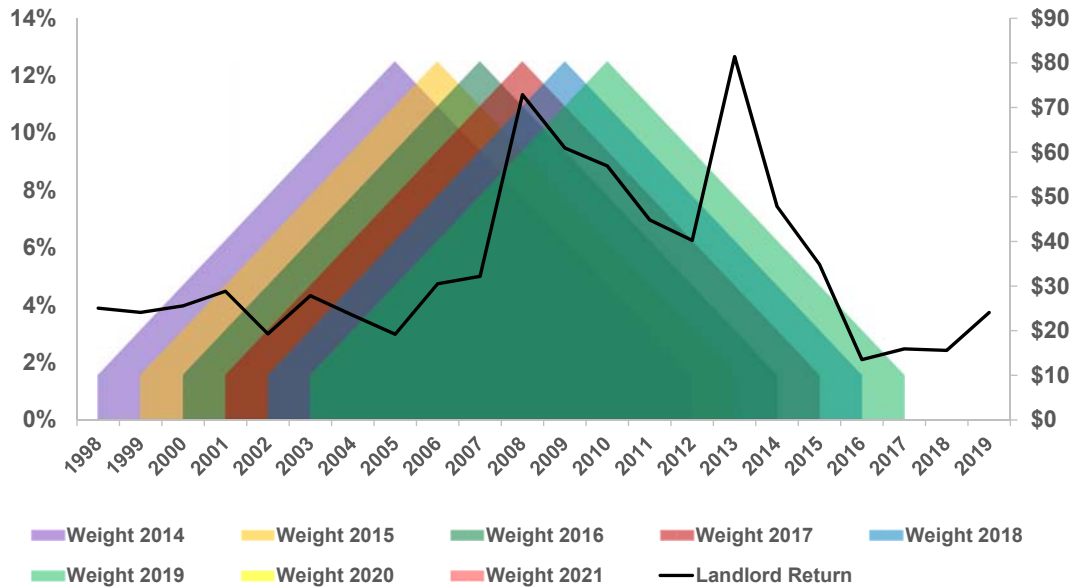
Non-irrigated Computation Process for Barton County



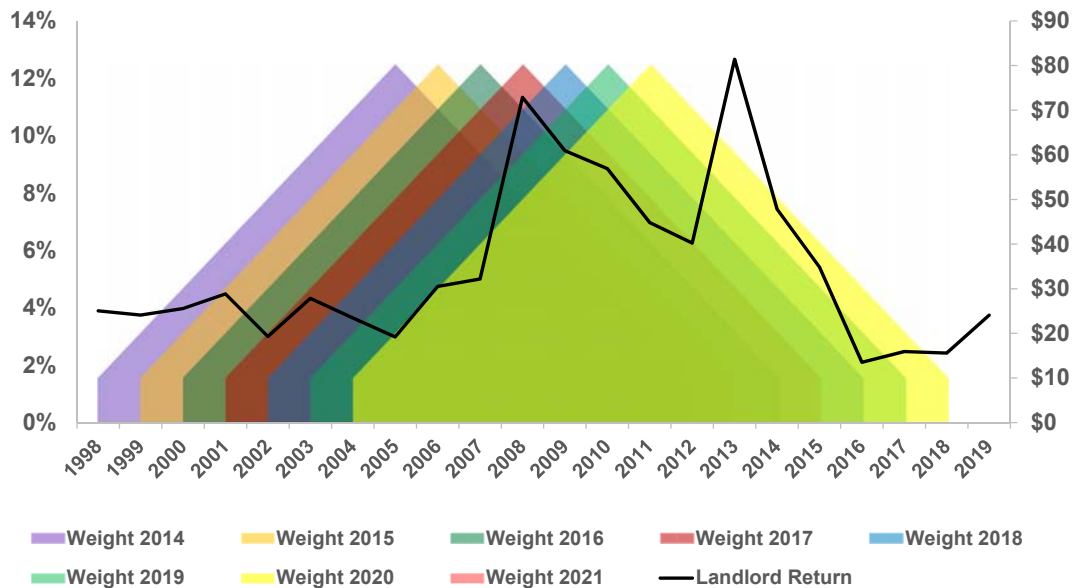
Non-irrigated Computation Process for Barton County



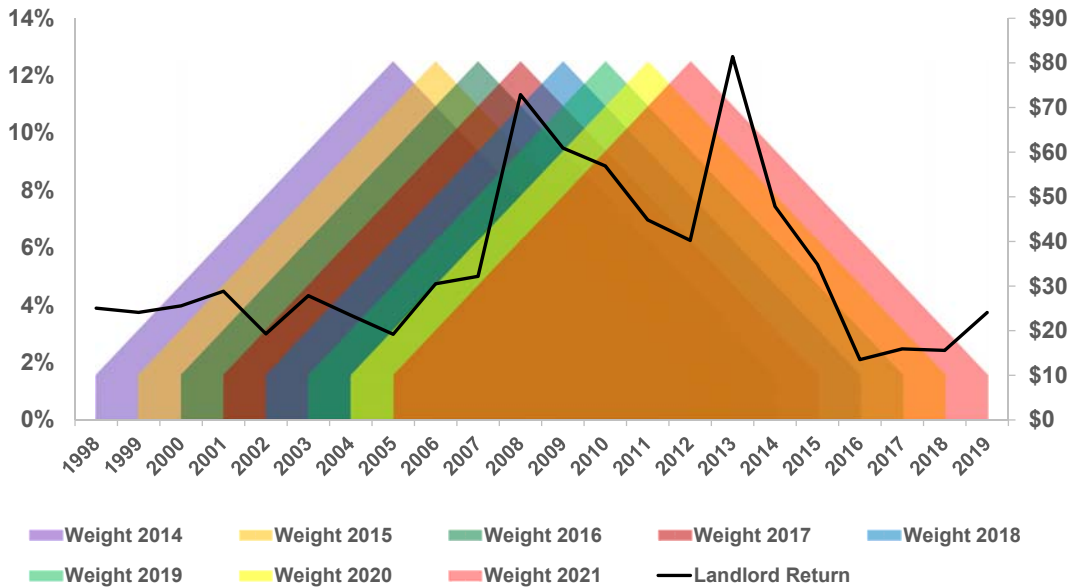
Non-irrigated Computation Process for Barton County



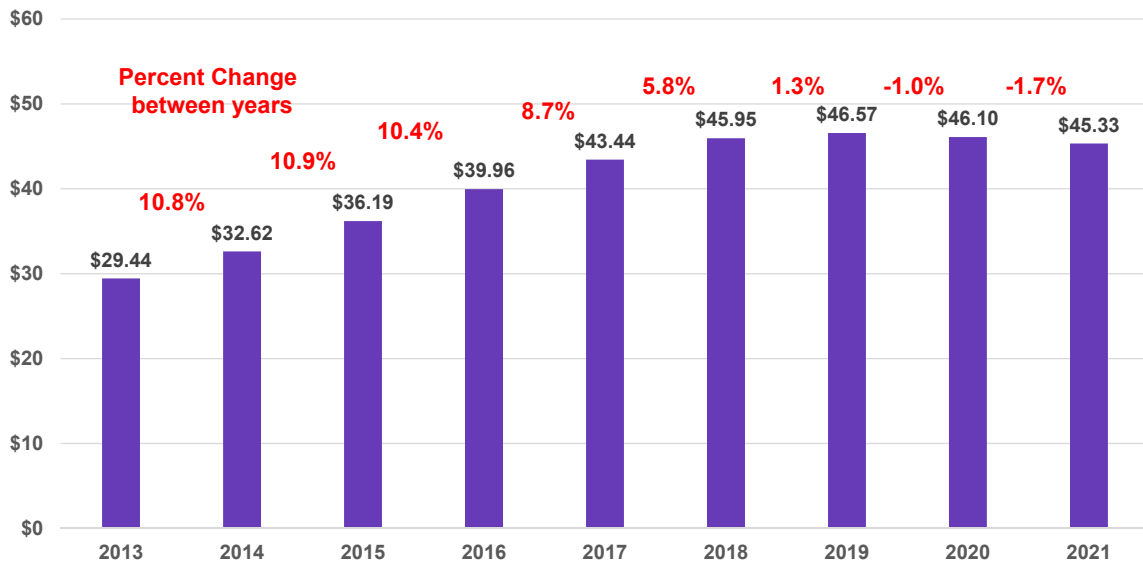
Non-irrigated Computation Process for Barton County



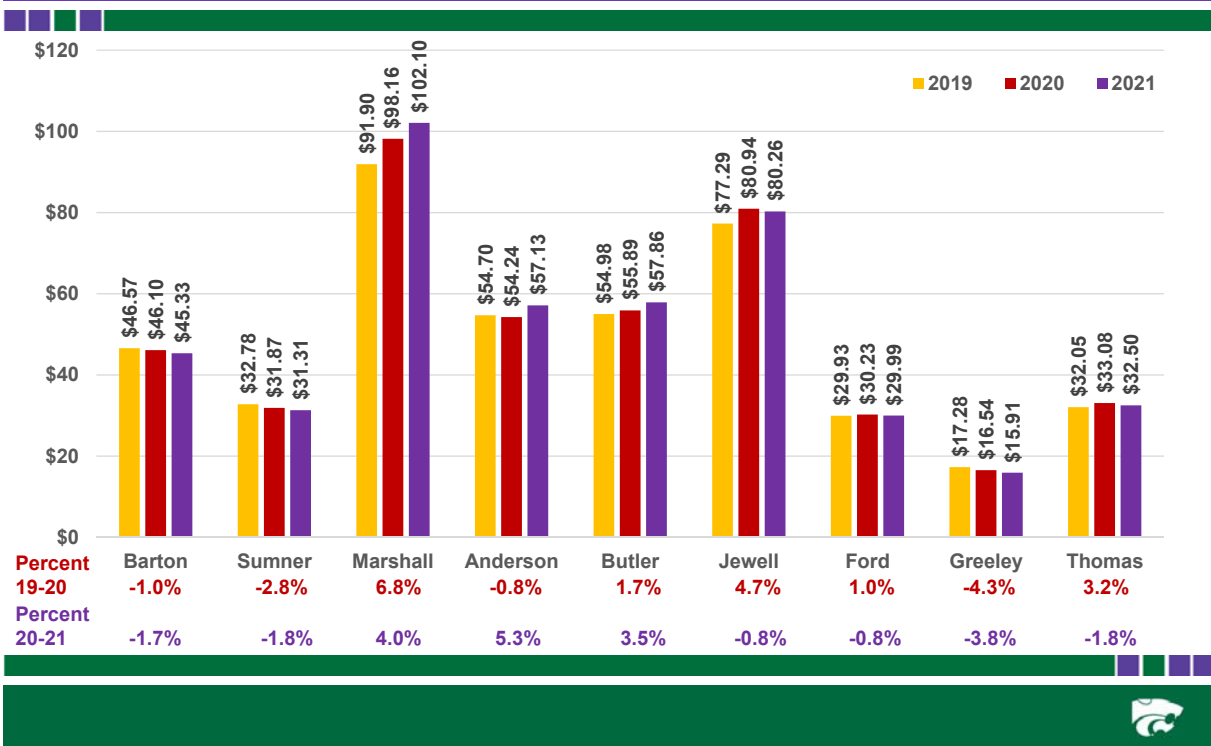
Non-irrigated Computation Process for Barton County



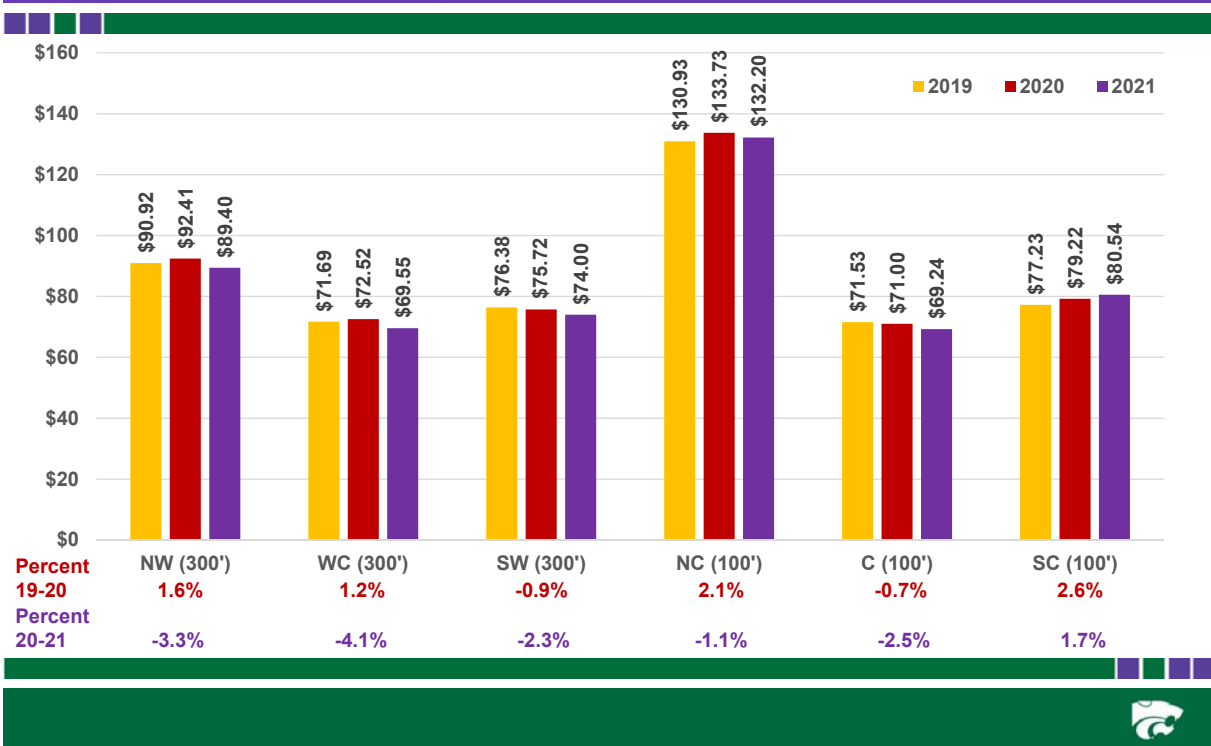
One Year Percentage Change for Barton County



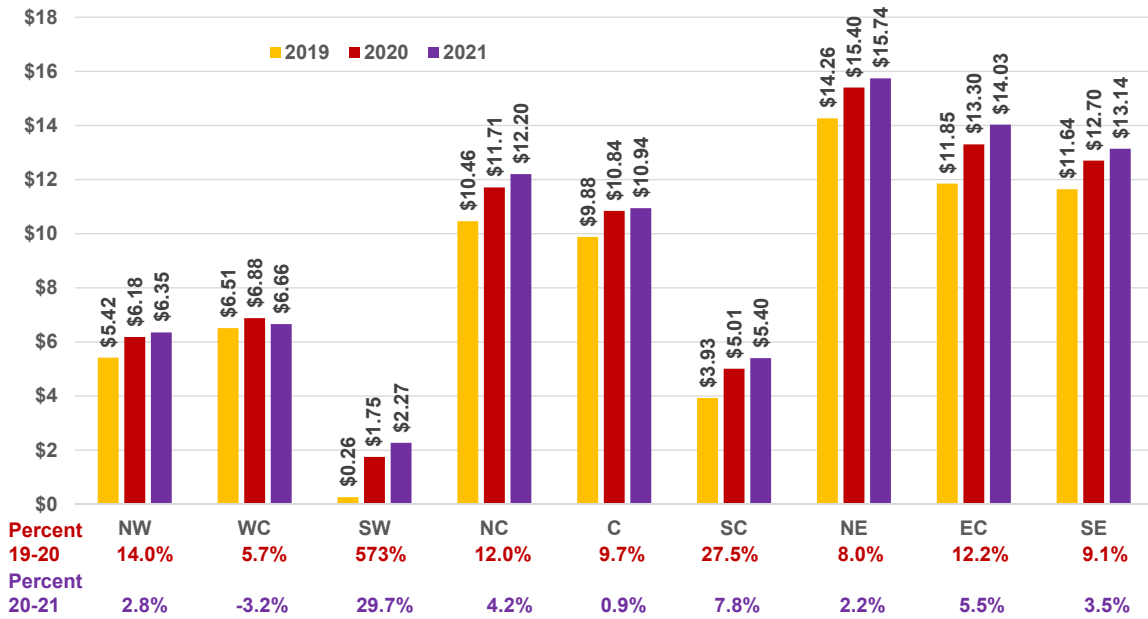
Impact of Moving Forward One Year for Kansas Dryland (Tax Years 2019 to 2020 and 2020 to 2021)



Impact of Moving Forward One Year for Kansas Irrigated (Tax Years 2019 to 2020 and 2020 to 2021)



Impact of Moving Forward One Year for Kansas Native Pasture (Tax Years 2019 to 2020 and 2020 to 2021)



In 2021, Landlord Net Income Changes Non-Irrigated

Cheyenne \$26.21 \$26.30 -0.34%	Rawlins \$33.09 \$33.57 -1.43%	Decatur \$38.50 \$39.73 -3.10%	Norton \$42.04 \$43.09 -2.44%	Phillips \$46.18 \$48.37 -4.53%	Smith \$66.16 \$67.11 -1.42%	Jewell \$80.26 \$80.94 -0.84%	Republic \$85.04 \$84.96 0.09%	Washington \$85.84 \$86.45 -0.71%	Marshall \$102.10 \$98.16 4.01%	Nemaha \$124.13 \$120.31 3.18%	Brown \$188.61 \$185.88 1.47%	Doniphan \$192.17 \$185.35 3.68%		
Sherman \$24.09 \$25.04 -3.79%	Thomas \$32.50 \$33.08 -1.75%	Sheridan \$37.39 \$38.42 -2.68%	Graham \$35.82 \$36.19 -1.02%	Rooks \$36.03 \$37.54 -4.02%	Osborne \$24.97 \$25.52 -2.16%	Mitchell \$62.17 \$63.21 -1.65%	Cloud \$68.44 \$69.11 -0.97%	Clay \$82.27 \$87.41 -0.13%	Riley \$89.49 \$87.41 2.38%	Pottawatomie \$114.56 \$110.46 3.71%	Jackson \$118.07 \$118.45 -0.32%	Atchison \$127.84 \$128.85 3.00%	Leavenworth \$120.55 \$105.84 2.68%	Wyandotte \$107.07 \$105.84 3.47%
Wallace \$19.22 \$20.02 -4.00%	Logan \$30.64 \$30.86 -0.71%	Gove \$35.44 \$35.90 -1.28%	Trego \$26.44 \$26.41 0.11%	Ellis \$29.62 \$30.28 -2.18%	Russell \$39.39 \$40.22 -2.06%	Lincoln \$49.88 \$50.45 -1.13%	Ottawa \$60.67 \$62.23 -2.51%	Saline \$53.41 \$53.31 0.19%	Dickinson \$59.73 \$59.80 -0.12%	Gearry \$75.39 \$75.33 0.76%	Wabaunsee \$98.34 \$64.90 5.30%	Shawnee \$82.10 \$80.99 1.37%	Douglas \$73.71 \$71.90 2.52%	Johnson \$63.83 \$61.80 3.20%
Greeley \$15.91 \$16.54 -3.81%	Wichita \$23.65 \$24.62 -3.94%	Scott \$31.44 \$31.76 -1.01%	Lane \$19.44 \$19.21 1.20%	Ness \$23.82 \$23.66 0.68%	Rush \$29.67 \$30.52 -2.79%	Barton \$45.33 \$46.10 -1.67%	Rice \$50.90 \$51.13 -0.45%	McPherson \$52.64 \$52.61 0.06%	Marion \$46.64 \$46.63 0.02%	Morris \$45.67 \$44.41 2.84%	Lyon \$48.70 \$47.16 3.27%	Osage \$58.71 \$57.52 2.07%	Franklin \$61.24 \$59.63 2.70%	Miami \$66.45 \$64.66 2.77%
Hamilton \$6.30 \$7.81 -19.33%	Kearny \$14.58 \$16.20 -10.00%	Finney \$22.05 \$23.59 -6.53%	Hodgeman \$21.61 \$22.28 -3.01%	Pawnee \$26.93 \$28.88 -6.75%	Stafford \$32.41 \$34.41 -5.81%	Reno \$37.52 \$37.96 -1.16%	Harvey \$48.34 \$48.78 -0.90%	Butler \$57.86 \$55.89 3.52%	Greenwood \$53.00 \$52.90 0.19%	Woodson \$54.94 \$52.32 5.01%	Allen \$51.35 \$51.32 3.84%	Bourbon \$52.16 \$50.42 3.45%	Cherokee \$55.43 \$53.22 2.27%	
Stanton \$11.14 \$12.62 -11.73%	Grant \$3.11 \$5.07 -38.66%	Haskell \$13.49 \$14.73 -8.42%	Ford \$29.99 \$30.23 -0.79%	Edwards \$24.34 \$25.03 -2.76%	Pratt \$31.63 \$32.54 -2.80%	Kinman \$25.88 \$26.76 -3.29%	Sedgwick \$34.47 \$35.08 -1.74%	Cowley \$41.98 \$40.07 4.77%	Elk \$50.74 \$48.74 4.10%	Chautauqua \$41.15 \$38.75 6.19%	Montgomery \$46.06 \$43.57 5.72%	Labette \$45.26 \$41.99 3.76%	Crawford \$54.43 \$53.22 2.27%	
Morton \$3.23 \$5.36 -39.74%	Stevens \$5.92 \$8.19 -27.72%	Seward \$9.93 \$11.52 -13.80%	Clark \$13.40 \$14.39 -6.88%	Comanche \$14.04 \$16.78 -10.97%	Barber \$22.84 \$23.86 -4.27%	Harper \$20.70 \$21.68 -4.52%	Sumner \$31.31 \$31.87 -1.76%	Cowley \$41.98 \$40.07 4.77%	Chautauqua \$41.15 \$38.75 6.19%	Montgomery \$46.06 \$43.57 5.72%	Labette \$45.26 \$41.99 3.76%	Crawford \$54.43 \$53.22 2.27%	Cherokee \$55.43 \$53.22 2.27%	

Legend: 2021 Values Weighted Average LNI (2019). 2020 Values Weighted Average LNI (2018). Percent Change '18 to '19.



In 2021, Landlord Net Income Changes Non-Irrigated

- Forty-five of the 105 counties increased
- Sixty of the counties decreased
- Changes range from \$6.83 in Doniphan to -\$2.27 in Stevens
 - Percent changes ranges from -39.8% to 7.2%



In 2021, Landlord Net Income Changes Irrigated

- At the 200 foot well depth, the weighted average LNI decreased in all districts except South Central
- Changes range from \$0.80 to -\$2.38
 - Percent changes ranges from -4.1% to 1.3%



In 2021, Landlord Net Income Changes Pasture

- LNI increased for native and tame grass in all districts, except West Central native
- Changes range from \$0.73 to -\$0.22 for native
 - Percent changes range from -3.3% to 29.7%
- Changes range from \$1.59 to \$0.34 for tame
 - Percent changes range from 2.9% to 21.3%

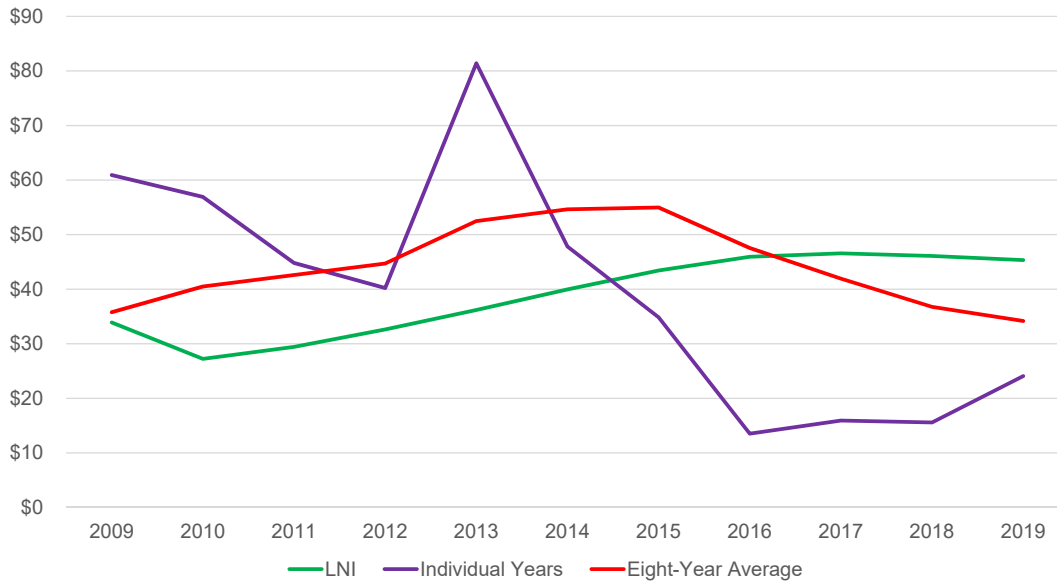


Formula Changes

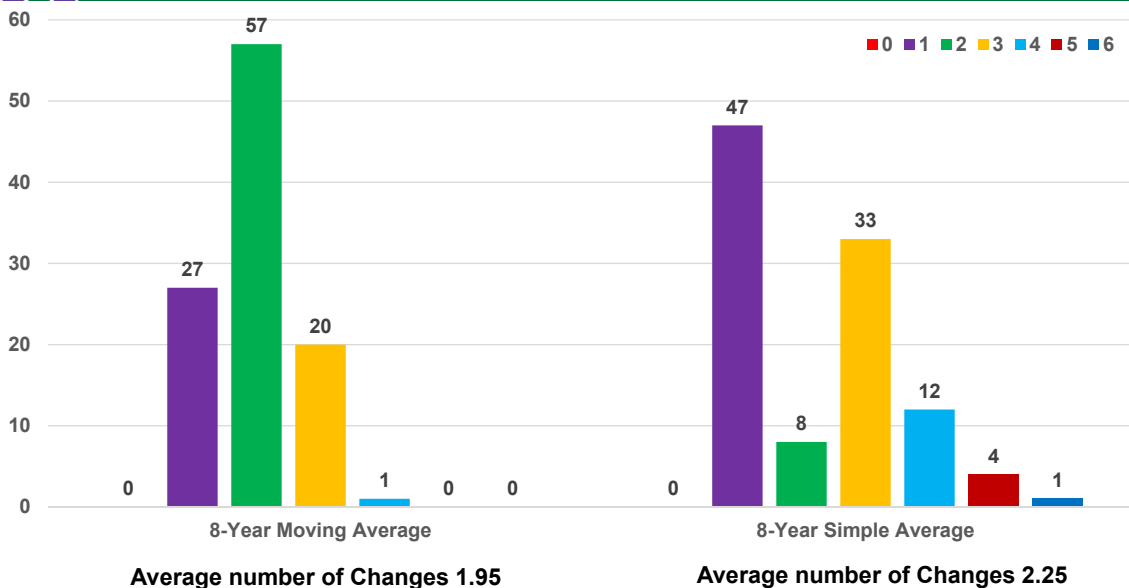
- House Bill 2023 Introduced
- http://kslegislature.org/li/b2021_22/measures/hb2023/
- *“For all taxable years commencing after December 31, 2022, commodity prices, crop yields and crop mix for each calendar year shall be based only on data of such calendar year. Accordingly, for all taxable years commencing after December 31, 2022, the director of property valuation shall not use the methodology commonly referred to as the method of moving averages that calculates multi-year averages for commodity prices, crop yields and crop mix for each calendar year. The director shall continue to use the average of eight calendar years of landlord net income for purposes of valuation as provided in this section.”*



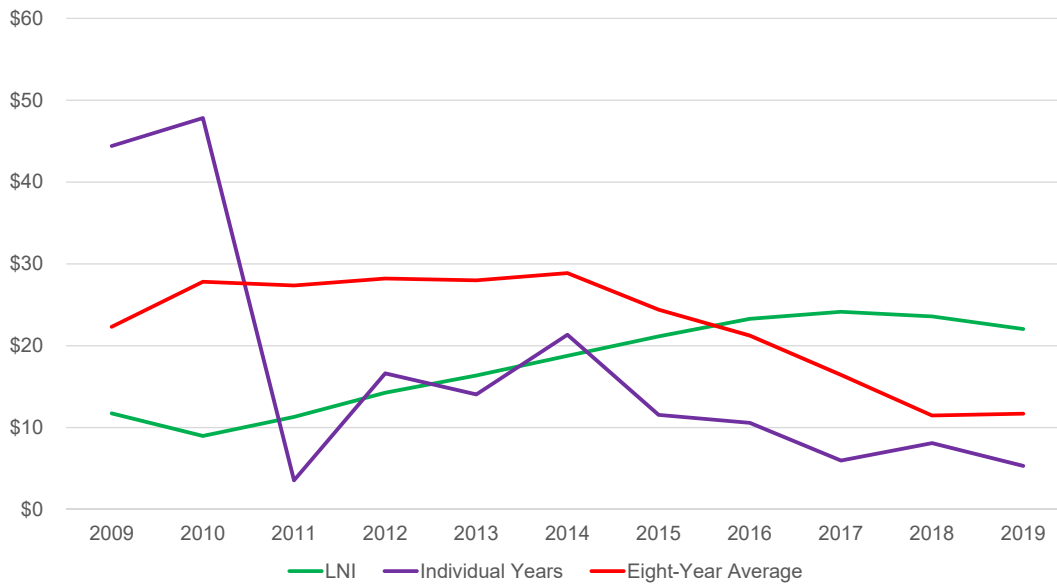
Non-irrigated Single Year Landlord Return, 8-year average, and LNI for Barton County, 2009 - 2019



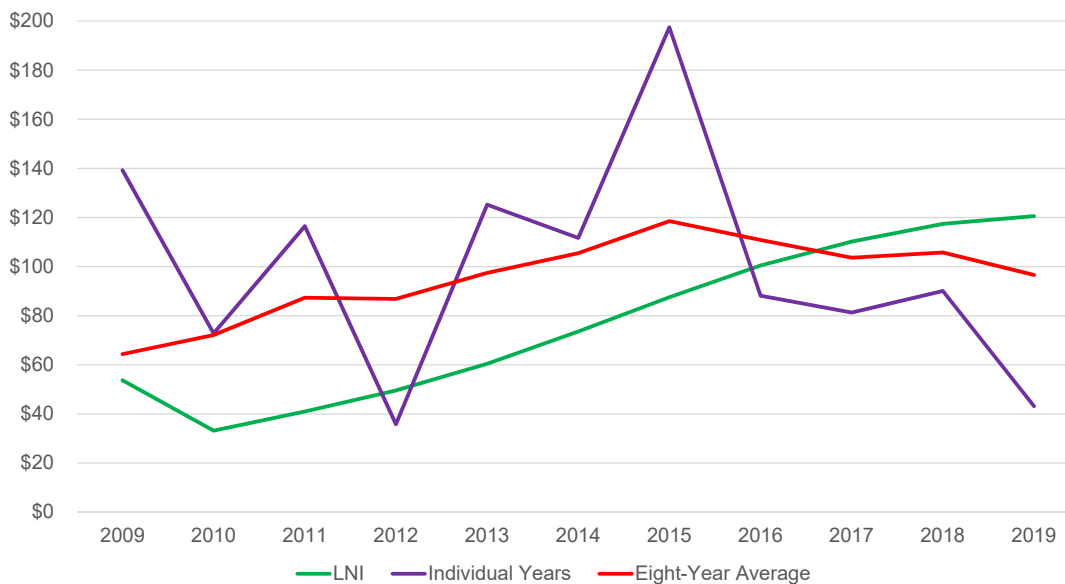
Turning Points for the Non-Irrigated 8-Year Moving Average and the 8-Year Simple Average 2009 to 2019



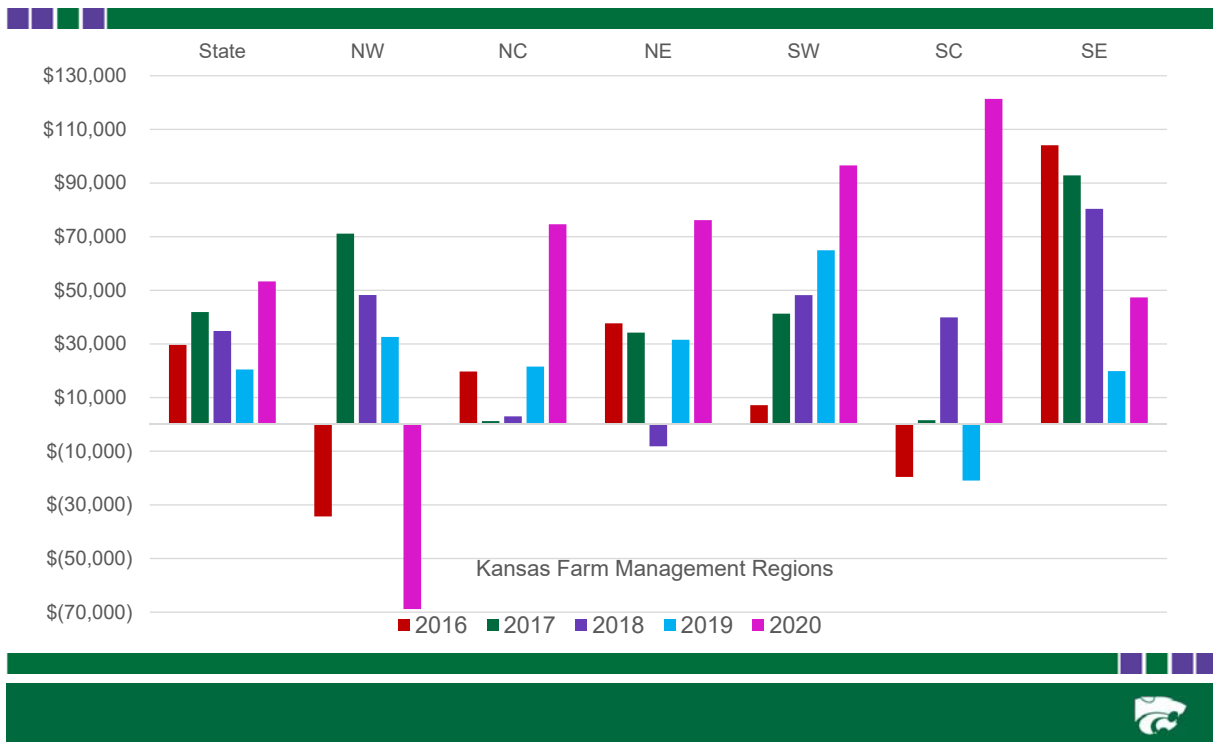
Non-irrigated Single Year Landlord Return, 8-year average, and LNI for Finney County, 2009 - 2019



Non-irrigated Single Year Landlord Return, 8-year average, and LNI for Jefferson County, 2009 - 2019



Net Farm Income without Government Payments and Net Crop Insurance Proceeds



Summary

- Kansas real estate tax values on non-irrigated land are likely to decrease in the next year
 - While incomes are high, much of the income through 2020 has not come through the market
 - This could change when 2021 numbers are added
- Kansas real estate tax values on irrigated land are likely to decrease in the next year
 - Percentage is likely to be similar to non-irrigated
- Kansas real estate tax values on pasture are likely to be fairly stable over the next few years though they could increase
- A change in policy to move to a straight 8-year average would cause a quicker adjustment
 - Would increase the volatility of year to year asset values



Questions?

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