

2024 GRAIN ELEVATOR APPRAISAL GUIDE - ADDENDUM

This addendum is applicable to the 2024 valuation year as authorized by K.S.A. 79-1412a(b)

Introduction

The purpose of this addendum is to inform Kansas County Appraisers, industry representatives and other interested parties of amendments to the Kansas Grain Elevator Appraisal Guide for the 2024 tax year. It will serve as the update and provide the only changes for the 2024 Grain Elevator Valuation Guide.

The changes stem from a court ruling of a longstanding grain elevator appeal in Gray County, Kansas. In July of 2022, the Kansas Court of Appeals released a ruling finding that key components of a grain handling facility are personal property items and not fixtures. In late-October, the Kansas Supreme Court denied Gray County's petition for review of the Kansas Court of Appeals decision in the case. This action makes the ruling binding and provides guidance to the appraisal process.

To classify property for ad valorem tax purposes, K.S.A. 79-261 requires the county appraiser to conform to a) the definitions of real and personal property in Kansas law; and b) the factors set forth in the Personal Property Guide published by the Director of Property Valuation.

K.S.A. 79-102 defines real property and personal property in the following manner:

“That the terms “real property,” “real estate,” and “land” ... shall include not only the land itself, but all buildings, fixtures, improvements, mines, minerals, quarries, mineral springs and wells, rights and privileges appertaining thereto.”

“The term “personal property” shall include every tangible thing which is the subject of ownership, not forming part or parcel of real property...”

Where the proper classification of Commercial Industrial Machinery & Equipment (CIME) is not clearly determined from the definitions of real and personal property provided in Kansas law, the appraiser shall use the three-part fixture law test as set forth in K.S.A. 79-261 and the Personal Property Guide prescribed by the Director of Property Valuation pursuant to K.S.A. 75-5105a(b), and amendments thereto, and shall consider the following:

- a. The **annexation** of the machinery and equipment to the real estate;
- b. The **adaptation** to the use of the realty to which it is attached and determination whether the property at issue serves the real estate; and

- c. The **intention** of the party making the annexation, based on the nature of the item affixed; the relation and situation of the party making the annexation; the structure and mode of annexation; and the purpose or use for which the annexation was made.

Additionally, K.S.A. 79-261(b)(3) states that “basic factors for clarifying items as real or personal property are their designated use and purpose.”

All three parts of the test must be satisfied before an item can be classified as real property.

Using Kansas’ three-part fixture law, the appellate court determined much of the elevator’s CIME was not sufficiently annexed to the realty to be classified as fixtures. The Court considered the degree of permanency of the CIME and other details surrounding an item’s physical attachment and removability. Much of the CIME was large integral parts of the grain handling operation that were bolted to the grain storage bins. Following is a general list of the equipment cited in the order. It seems logical that other CIME items can be viewed as natural extensions to the list below and be classified as personal property as well (i.e. vertical elevator conveyor leg).

- Conveyors
- Spouting
- Transitions
- Gates
- Aeration components
- Connecting bridges
- Temperature monitoring equipment
- Loadout system modules and components

There will obviously be some changes in the way the CIME is handled for appraisals. Based on the court order, the appraiser will need to consider what items qualify as real property and what qualifies as personal property. The court order can provide guidance on some, but likely not all items, and the three-part fixture law test should be utilized when needed.

2024 Grain Elevator Guide Changes

Since no grain elevator sales or Marshall Swift cost information was updated for the 2024 guide, the 2023 grain elevator valuation can serve as the basis for the 2024 valuation. ***However, the tax year should be updated in the worksheet where applicable (i.e. Depreciation Analysis worksheet).*** Appraisers are reminded to retain a copy of the 2023 valuation documents for the required work file, then create a 2024 document from 2023. Obviously, physical changes such as new construction and demolition must be accounted for.

CIME in the Cost Approach

For simplicity as well as consistency, CIME items are bundled together in the Grain Elevator Guide sales used to establish depreciation for the cost approach to value. The Marshall Swift (MS) bundled CIME costs consider the complexity of the grain handling operation in the quality component (low, average, good, excellent). Theoretically, the more complex the operation, the better the quality assignment used to account for this variable. Because MS bundled costs are used, an accurate extraction of the individual

CIME items is not available. Since the appraiser will seek guidance from the court order (and three-part fixture law test if needed), it is recommended the bundled CIME costs be removed from the cost approach when valuing subject properties through the guide worksheet. If an analysis of the three-part fixture test indicates individual items need to be added back into the real estate equation, this can be done individually item by item.

Adjustments for CIME were applied in Section 2-Storage Equipment of the cost valuation worksheet. The costs were broken up by MS bundled costs and aeration costs. When displaying the contributory CIME cost from the worksheet, it is best practice to retain and display the original CIME RCN value in section 2 to show the amount that was originally added to the RCN. See the RCN column in the “partial” section 2 display below. The user can then show the value was deducted the overall RCN calculation in Section 3-Cost Reconciliation. The grain storage will have multipliers and depreciation applied to arrive at the final depreciated cost estimate.

Partial Display of Cost Worksheet Section 2 - EXAMPLE

SECTION 2 - STORAGE EQUIPMENT		Year Built	Bu. Capacity/ Units	Rate	RCN
(6)	Aeration System				
	Slip Form Concrete .18 Per Bushel (no aeration)		0	\$0.18	0
	All other Storage .14 Per Bushel		582,000	\$0.14	81,480
(7a)	Consolidated Grain Handling Equipment - Rate x \$ Per Bushel				
			582,000	\$1.20	698,400
					0
Section 2, TOTAL RCN: Transfer to Line 9, Section 3					779,880

Display of Cost Worksheet Section 3 - EXAMPLE

SECTION 3 - COST RECONCILIATION			
(8)	Total Cost Section 1	\$2,900,417	
(9)	Total Cost Section 2	\$779,880	
(10)	Total Cost for Section 1 and 2	3,680,297	
(10a)	CIME \$ Adjustment	(779,880)	Minus Total CIME cost
(10b)	Adjusted Cost for Section 1 and 2	\$2,900,417	Total Cost-CIME cost
(10c)	CIME Cost Percentage of Total RCN (For use in Comparable Sale Adjustment)	21.1907%	Total cost / CIME cost
(11)	Current Cost Multiplier	1.01	
(12)	Local Multiplier	0.93	
(13)	Total Replacement Cost New (RCN)	2,724,362	
(14)	Depreciation - Physical & Functional (%)	86.5%	no calc
(15)	Economic Obsolescence (%)		no calc
(16)	Total Obsolescence & Depreciation cannot be more than 90%	86.5%	\$2,355,211
(17)	Total Replacement Cost New Less Depreciation (RCNLD)	\$369,151	
(18)	ESTIMATED MARKET VALUE (Rounded)	\$0.63 Per Bushel	\$369,200

CIME in the Comparable Sales Approach

In the comparable sales approach to value, the MS bundled CIME costs are embedded in the sale and not specifically segregated out like in the cost approach. Therefore, an extraction of the CIME bundled costs from the sales is problematic. Since the CIME costs calculated in the cost approach is already documented, it is recommended this cost adjustment also be applied to the comparable sales approach. To apply the MS cost numbers to the comparable sales approach, the contributory value of the CIME from the cost approach must be converted from a dollar amount to a percentage of the total grain handling value. To calculate the contributory CIME cost as a %, the user should take the total CIME cost on line 9, section 3 of the cost worksheet, and divide it by the total improvement cost on line 10, section 3. The resulting calculation is a % of the CIME as it was applied to the cost valuation. Once converted to a %, it can be applied to the final comparable sale dollar per bushel value.

There are multiple ways to analyze the sales for the comparable sales approach. For example, the appraiser may analyze sales individually, by the total statewide or regional database considering construction type, size, and age etc. The example below shows the reconciliation of the different data sets. The 21.1907% CIME adjustment represents a -\$0.1879 (rounded) adjustment. The final value is adjusted to from \$0.8867 to \$0.6988 per bushel.

2024 SALES COMPARISON APPROACH

Price Per Bushel Storage

Category or Sub-Category	# Properties	Low	Mean	Median	High
Total Database					
Type of Construction	28	\$0.26	\$1.40	\$1.41	\$2.83
Size (Total DB)	24	\$0.12	\$1.25	\$1.08	\$3.30
Age (Total DB)	15	\$0.12	\$1.00	\$0.64	\$2.11
Total Regional Database					
Type of Construction (Regional DB)	1	\$0.12	\$0.12	\$0.12	\$0.12
Size (Regional DB)	6	\$0.12	\$1.44	\$1.27	\$3.30
Age (Regional DB)	6	\$0.12	\$1.12	\$1.08	\$2.11
Types of Storage (Regional DB)					
Upright Concrete					
Upright Steel					
Crib					
Flat Storage					
Mixed					
Other:	Type	Eff Age	Capacity		Net \$/bu
Subject Property		44.79	700,000		
Individual Sale No. <u>64</u>	STEEL	26.56	445,368		\$0.88
Individual Sale No. <u>47</u>	STEEL	32.48	933,000		\$0.70
Individual Sale No. <u>26</u>	MIXED	31.00	415,308		\$0.80

\$1.04

\$0.82

\$0.79

Conclusion	\$0.89	Dollars Per Bushel
	-\$0.1879	CIME \$ Adjustment
	\$0.6988	CIME % Adjustment
		21.1907%

Personal Property CIME Items

Considering CIME items personal property rather than real property puts a reporting burden on the property owner. By law, individuals, companies and corporations that own or have tangible personal property subject to their control on January 1st, must list the property with the county appraiser on or before March 15th. This is a self-reporting function and it the responsibility of the property owner. The county appraiser is required by law to apply a penalty to the assessed value of personal property that is not listed by the March 15th deadline.

In 2006, to promote and stimulate new investments in CIME in Kansas, and to encourage economic expansion and job growth, Kansas legislation was passed that exempted all new CIME acquired by a qualified purchaser, or CIME transported into the state for the purpose of expanding an existing business or creating a new business after June 30, 2006 from ad valorem property taxation. This legislation can be found in K.S.A. 79-223. While many grain elevator CIME items will qualify for this exemption, there will still be items that will not qualify.

Initially, owners will be requested to complete a comprehensive personal property rendition for all CIME items by the March 15th deadline. It will be the responsibility of the county appraiser to review the completed rendition and determine which items qualify for the exemption and which do not. Although it may be prudent to provide a comprehensive listing of all items to the county appraiser annually, items qualifying for the exemption will not be required to be reported in future years. If the county appraiser does not feel like an initial comprehensive listing has been made by the owner, they may arrange a visit to the property for an on-site physical inspection of the facility.

The personal property penalty schedule is as follows:

March 16 through April 15	5%
April 16 through May 15	10%
May 16 through June 15	15%
June 16 through July 15	20%
July 16 through March 14 of the following year.....	25%

If **within one year following the March 15th filing deadline**, the county discovers personal property that a taxpayer has failed to file, or failed to file a *complete* list of, the county appraiser *must* determine the assessed value of the property and apply a 50% penalty for failure to file. When the taxpayer fails to file a *complete* list of personal property, the penalty is applied *only* to the omitted or underreported portion of the property.

Property owners should refer to the current Personal Property Valuation Guide on the PVD website at <https://www.ksrevenue.gov/pvdvaluation.html> for additional information on personal property and penalties.

2022 and Prior Appeals

Compliance with the court order is understood to be retroactive. For the 2022 tax year, county appraisers may find property owners paying taxes under protest expecting the CIME change to be considered. If a property owner appeals a value due to personal property CIME items being included in the real property appraisal, and the county appraiser agrees with the requested change, the appraiser should make the adjustment for the 2022 tax year even though the court order was issued after January 1, 2022. A real property valuation appeal adjustment can be handled in the same manner as 2024 valuations described previously in this document. At the time of the appeal, the county should request a new or corrected personal property rendition be submitted for the year of the appeal. This will serve as the basis for the CIME review by the county appraiser. The real property valuation adjustment for a 2022 appeal should follow the 2024 valuation guidance designated by the Director of Property Valuation per K.S.A. 75-5105a(b) in this supplemental publication.

Note: The property owner may not file an equalization appeal and a payment under protest appeal in the same tax year.

If CIME personal property adjustments are made to an appeal for the 2022 tax year, the county appraiser will retroactively add the CIME items removed from the real property appraisal to a 2022 personal property rendition AND apply the required statutory penalty to the delinquent rendition from the schedule above per K.S.A. 79-1422. The taxpayer may apply for a tax grievance from the BOTa to remove the penalty.

2024 Valuation Notices

For the tax year 2024, there could be two property valuation notices, real and personal. If all personal property qualifies for exemption, there will only be a real property notice of value. The real property valuation notice will be issued on or before March 1, and the taxpayer will have 30 days to file an equalization appeal with the county appraiser. The personal property valuation notice will be issued on or before May 1, and the taxpayer will have until May 15 to file an equalization appeal with the county appraiser.