

**HOUSE APPROPRIATION COMMITTEE  
HOUSE BILL 2**

Valuation of agricultural land involves 3 factors:

- Identifying current use (summerfallow, irrigated, grazing, etc)
- Identifying current yield (bushels of wheat, tons of alfalfa, etc.)
- Application of valuation schedules to each acre of land

Current law requires that the department *“revalue all taxable property within classes three (agricultural land), class 4 (residential & commercial), and class 10 (forest land) by January 1, 2008 and each succeeding six years”*. The department has received funding to revalue residential and commercial property, but funding has not been provided to reclassify and revalue agricultural land.

Current law requires the department *“to value and phase in the value of newly constructed, remodeled, or reclassified property”*. It also requires the department *“to maintain current classification of lands”*. Since the department has failed to reclassify the land as provided by law in over 40 years, farmers or ranchers whose land is properly classified could challenge their property tax assessments because of the misclassification of other agricultural land.

Failure to meet the requirements of law will create unknown risks of litigation that the state has not fulfilled its reappraisal obligations for property classes three, four, and ten as a group. The potential litigation could include a return to the class action property tax lawsuits that disrupted the statewide appraisal process in the 1970's and 1980's. As a result there is the potential for placing significant revenue at risk with uncertain outcomes. For example, a statewide class action lawsuit, assuming a class of a size attainable by litigants, could have the following impact:

- If 1½% of residential property values are at risk, \$ 6.6 million of annual tax dollars could be affected
- If 10% commercial property values are at risk, \$ 21 million of annual tax dollars could be affected

The amount of money that the state would have to reserve to deal with a class action lawsuit could exceed the amount of appropriation requested with respect to the statewide mills alone.

Four (4) county studies conducted to assess non-compliance indicate that between 5% to 10% of all agricultural land may be misclassified.

- Assuming there is the same percentage of misclassified land on a statewide basis as determined in the four county study, no changes to existing law and a statewide average mill levy, the potential revenue change is estimated at between \$ 5 million – \$ 8.9 million - a change that reduces taxes for other property taxpayers or finances essential services.

Proposal :

- One time only biennial appropriation of \$2.8 million
- No change to existing land use classifications or valuation approach
- Use Farm Services Agency (FSA) data to determine current use where possible.
- Use Natural Resource and Conservation Service soil survey information to determine productivity where possible.
- 27.25 new staff are required to review and map the individual land uses and determine yield for each producer during the FY 06-07 biennium.