SENATE TAXATION
EXHIBIT NO. 1
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"All taxable property must be assessed at 100% of its market value except as otherwise provided." Section 15-8-111(1), MCA.

Montana law requires all property to be assessed based upon its market value unless the Legislature provides otherwise. The Legislature determined that agricultural land in Montana should be assessed differently than other property. This determination was based upon the Legislatures recognition that the market for agricultural land did not necessarily reflect the actual value of the land.

"Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes." Section 15-7-201, MCA

Based upon this understanding, the Legislature established the following requirements for the valuation of agricultural land for tax purposes:

Data and Information

- The Governor must appoint an advisory committee consisting of individuals knowledgeable in agriculture and agricultural economics (The Ag Advisory Committee). 15-7-201(7)

- The Ag Advisory Committee must contain at least one member of the MSU-Bozeman College of Agriculture staff. 15-7-201(7)

- Pursuant to 15-7-201(7), the Ag Advisory Committee must:

    - Compile and review the data necessary for the Department to compute its agricultural land valuation schedules including the value, income, and capitalization rate used to establish those valuation schedules. 15-7-201(7)(a)

    - Recommend any adjustment to data if such changes are required because of changes in government programs, market conditions, or prevailing agricultural practices require such changes. 15-7-201(7)(b)

    - Recommend appropriate base periods and averaging methods to be used by the Department. 15-7-201(7)(c)

    - Evaluate the appropriateness of the capitalization rate used by the Department and to recommend a rate to be used. 15-7-201(7)(d)

- Verify that the income determined for each use class and production subclass of agricultural land reasonably approximates that which the average Montana farmer or rancher could have attained. 15-7-201(7)(e)

- Recommend agricultural land valuation schedules to the Department. 15-7-201(7)(f)

    - The recommended value of irrigated land may not be below the value of nonirrigated land. 15-7-201(7)(f)

- The Department must compile data and develop valuation manuals to implement the method used to value agricultural land. 15-7-201-(6)

    - The manuals must be adopted by rule. 15-7-201(6)

Classification

- Agricultural land must be classified according to its use, including but not limited to irrigated, nonirrigated, and grazing. 15-7-201(2)

- Land within each class must be subclassified by production categories. 15-7-201(3)

- Production categories are determined based upon yield. 15-7-201(3)

Valuation

- The valuation of agricultural land is determined each reappraisal cycle. 15-7-201(4)

- In valuing agricultural land, the Department may only consider those indicia of value the land has for agricultural purposes. 15-7-203

- The values attributable to each productivity capacity subclass must be determined using the formula V=I/R (value = income/rate). 15-7-201(4)

    - V= the per-acre productive capacity value of agricultural land in each use class and each production subclass. 15-7-201(4)(a)

    - I= the per-acre net income of agricultural land in each use class and each production subclass. 15-7-201(4)(b)

    - R=the capitalization rate is equal to 6.4% unless the Agriculture Advisory Committee recommends a different rate. 15-7-201(4)(c)

Determination of per-acre net income

- The per-acre net income for each use class and productivity subclass must be determined separately. 15-7-201(5)

- Net income is determined using a base period. 15-7-201(5)

    - The base period for determining net income is the most recent seven years for which data is available prior to the date the revaluation cycle ends. 15-7-201(5)(d)

    - The Ag Advisory Committee may recommend a different base period that may be adopted by the Department. 15-7-201(5)(d)

- The data used to determine net income must be averaged. 15-7-201(5)(d)

    - The average must exclude the lowest and the highest yearly data for the base period. 15-7-201(5)(d)

    - The Ag Advisory Committee may recommend a different averaging method that may be adopted by the Department. 15-7-201(5)(d)

- Net income must be based on commodity price data. 15-7-201(5)(b)

    - Commodity price data may include grazing fees, crop and livestock share arrangements, cost of production data, and water costs for the base period. 15-7-201(5)(b)

    - Commodity price data should use the best data available. 15-7-201(5)(b)

    - Commodity price data and cost of production data for the base period must be obtained from the Montana Agricultural Statistics, the Montana crop and livestock reporting service. 15-7-201(5)(b)(i)

    - Commodity price data and cost of production data may be obtained from other sources of publicly available information if considered appropriate by the Ag Advisory Committee. 15-7-201(5)(b)(i)

- Crop and livestock share arrangements used in calculating net income are based on typical agricultural business practices and average landowner costs. 25-7-201(5)(B)(ii)

- Allowable water costs used in calculating net income consist only of the per-acre labor costs, energy costs of irrigation, and a base water cost of $5.50* for each acre of irrigated land. 15-7-201(5)(b)(iii)

    - The Ag Advisory Committee may recommend a different base water cost that may be adopted by the Department. 15-7-201(5)(b)(iii)

        - *In 2003 the Department adopted a base water cost of $10 upon the recommendation of the Ag Advisory Committee

    - Total allowable water costs may not exceed $40 per acre of irrigated land. 15-7-201(5)(b)(iii)

    - The per-acre labor and energy costs used in calculating allowable water costs must be determined as follows:

        - Labor costs are zero for pivot sprinkler irrigation systems; $4.50 per acre for tow lines, side roll, and lateral sprinkler irrigation systems; and, $9 per acre for hand-moved and flood irrigation systems. 15-7-201(5)(b)(iii)(A)

        - Energy costs must be based upon per-acre energy costs incurred in the energy cost base year. 15-7-201(5)(b)(iii)(B)

            - The energy cost base year is the calendar year immediately preceding the last year of the current appraisal cycle. 15-7-201(5)(b)(iii)(B)

            - Owners of irrigated agricultural land are required to report the energy costs incurred by them during the energy cost base year. 15-7-201(5)(b)(iii)(B)

            - Owners must report this information no later than July 1 of the year following the energy cost base year. 15-7-201(5)(b)(iii)(B)

- If the Owner did not incur any energy costs during the energy cost base year, the owner must report energy costs from the most recent year. 15-7-201(5)(b)(iii)(B)

- The Department will adjust the owner's recent year energy costs to reflect costs in the energy cost base year. 15-7-201(5)(b)(iii)(B)

Base crops used for valuation

- Irrigated land is valued using alfalfa hay, adjusted to 80% of sales price, as the base crop. 15-7-201(5)(c)

- Nonirrigated farm land is valued using wheat as the base crop. 15-7-201(5)(c)

- Nonirrigated hay land is valued using alfalfa hay, adjusted to 80% of sales price, as the base crop. 42.20.670, ARM

- Grazing land is valued using animal unit months (AUMs) as the average monthly requirement of pasture forage to support a 1,000-pound cow with a calf or its equivalent. 15-7-201(5)(c)