



AN ACT CREATING AN AGRICULTURAL LAND ADVISORY COMMITTEE TO ADVISE THE DEPARTMENT OF REVENUE ON IMPROVING THE VALUATION OF AGRICULTURAL LAND; DIRECTING THE AGRICULTURAL LAND ADVISORY COMMITTEE TO REPORT TO THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE; REQUIRING THAT THE AGRICULTURAL LAND ADVISORY COMMITTEE ASSIST THE DEPARTMENT OF REVENUE IN THE VALUATION OF AGRICULTURAL LAND; AMENDING SECTION 15-7-201, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Agricultural land advisory committee -- appointment -- duties. (1) (a) There is an agricultural land advisory committee of persons knowledgeable in agriculture and agricultural economics. The advisory committee must include one staff member of the Montana state university-Bozeman, college of agriculture. The committee consists of seven members:

(i) three persons appointed by the president of the senate, one of whom must be the staff member of Montana state university-Bozeman. The president shall appoint one of the other two appointees as presiding officer of the committee.

(ii) two persons appointed by the speaker of the house of representatives; and

(iii) two persons appointed by the governor.

(b) The appointments must be made by July 1 of each odd-numbered year and expire on June 30 of the subsequent odd-numbered year. Any vacancy must be filled by the appointing authority of the member causing the vacancy. Members are entitled to meals, lodging, and transportation reimbursement as provided in 2-18-501 through 2-18-503.

(2) In addition to advising the department as provided in 15-7-201, the committee shall:

(a) investigate problems that have arisen concerning the use of soil surveys in the valuation of class three property described in 15-6-133; and

(b) assist the department in providing transparency, efficiency, and taxpayer understanding of the

valuation of agricultural land.

(3) The committee may meet as frequently as it considers necessary, but not less than once each calendar quarter beginning July 1, 2011.

(4) The department shall provide support for the committee, including staff support by departmental rangeland and geographic information system specialists.

(5) By May 31, 2012, the committee shall report to the revenue and transportation interim committee its recommendations in identifying, evaluating, and providing possible solutions to problems that arose in valuing agricultural property during the last reappraisal cycle through the use of soil surveys.

(6) On an ongoing basis, the committee shall advise the department on:

- (a) establishing transparency and understanding of the agricultural land valuation process;
- (b) providing taxpayer information on the valuation of agricultural land online that is up-to-date and understandable and includes maps and geographical information system information;
- (c) reviewing and reevaluating the agricultural land classification system, including but not limited to productivity, soils, and moisture;
- (d) defining and establishing a method to value or exempt agricultural land significantly affected by:
 - (i) soil type and the chemical content of the soil;
 - (ii) slope, aspect, and elevation of the land;
 - (iii) water levels;
 - (iv) wildlife and nonproductive vegetation;
 - (v) rock outcroppings or other natural or constructed physical impediments that limit or prohibit use of the land; and
 - (vi) any other factors that the committee considers appropriate;
- (e) what constitutes credible documentation necessary for adjusting an individual's or region's productive capacity values;
- (f) developing a procedure for an agricultural producer to gather and present appropriate evidence during an assessment review or formal protest of valuation; and
- (g) any other relevant issues and recommended legislation.

Section 2. Section 15-7-201, MCA, is amended to read:

"15-7-201. Legislative intent -- value of agricultural property. (1) 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.

(2) Agricultural land must be classified according to its use, which classifications include but are not limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land must be subclassified by production categories. Production categories are determined from the productive capacity of the land based on yield.

(4) ~~In~~ In computing the agricultural land valuation schedules to take effect on the date when each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the formula $V = I/R$ where:

(a) V is the per-acre productive capacity value of agricultural land in each land use and production category;

(b) I is the per-acre net income of agricultural land in each land use and production category and is to be determined as provided in subsection (5); and

(c) R is the capitalization rate and, unless the agricultural land advisory committee created under [section 1] recommends a different rate and the department adopts the recommended capitalization rate by rule, is equal to 6.4%. This capitalization rate must remain in effect until the next revaluation cycle.

(5) (a) Net income must be determined separately in each land use based on production categories.

(b) Net income must be based on commodity price data, which may include grazing fees, crop and livestock share arrangements, cost of production data, and water cost data for the base period using the best available data.

(i) 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, and other sources of publicly available information if considered appropriate by the agricultural land advisory committee.

(ii) Crop share and livestock share arrangements are based on typical agricultural business practices and average landowner costs.

(iii) Allowable water costs consist only of the per-acre labor costs, energy costs of irrigation, and, unless the agricultural land advisory committee recommends otherwise and the department adopts the recommended

cost by rule, a base water cost of \$15 for each acre of irrigated land. Total allowable water costs may not exceed \$50 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(A) Labor costs are \$5 an acre for pivot sprinkler irrigation systems; \$10 an acre for tow lines, side roll, and lateral sprinkler irrigation systems; and \$15 an acre for hand-moved and flood irrigation systems.

(B) Energy costs must be based on per-acre energy costs incurred in the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1 of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in that energy cost base year. In the event that no energy costs were incurred in the energy cost base year, the owner of irrigated land shall provide the department with energy costs from the most recent year available. The department shall adjust the most recent year's energy costs to reflect costs in the energy cost base year.

(c) The base crop for valuation of irrigated land is alfalfa hay adjusted to 80% of the sales price, and the base crop for valuation of nonirrigated land is spring wheat. The base unit for valuation of grazing lands is animal unit months (AUM), defined as the average monthly requirement of pasture forage to support a 1,000-pound cow with a calf or its equivalent.

(d) Unless the agricultural land advisory committee recommends a different base period and the department adopts the recommended base period by rule, the base period used to determine net income must be the most recent 7 years for which data is available prior to the date the revaluation cycle ends. Unless the agricultural land advisory committee recommends a different averaging method and the department adopts the recommended averaging method by rule, data referred to in subsection (5)(b) must be averaged, but the average must exclude the lowest and highest yearly data in the period.

(6) The department shall compile data and develop valuation manuals adopted by rule to implement the valuation method established by subsections (4) and (5).

~~(7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics. The advisory committee shall include one member of the Montana state university-Bozeman, college of agriculture, staff. The~~ In addition to the duties specified in [section 1], the agricultural land advisory committee shall:

(a) compile and review data required by subsections (4) and (5);

(b) evaluate the information, data, and procedures that should be used by the department for determining

the productive capacity value of agricultural land:

~~(b)~~(c) recommend to the department any adjustments to data or to landowners' share percentages if required by changes in government agricultural programs, market conditions, or prevailing agricultural practices;

~~(e)~~(d) recommend appropriate base periods and averaging methods to the department;

~~(d)~~(e) evaluate the appropriateness of the capitalization rate and recommend a rate to the department;

~~(e)~~(f) verify for each class of land that the income determined in subsection (5) reasonably approximates that which the average Montana farmer or rancher could have attained; and

~~(f)~~(g) recommend agricultural land valuation schedules to the department. With respect to irrigated land, the recommended value of irrigated land may not be below the value that the land would have if it were not irrigated."

Section 3. Codification instruction. [Section 1] is intended to be codified as an integral part of Title 15, chapter 7, part 2, and the provisions of Title 15, chapter 7, part 2, apply to [section 1].

Section 4. Effective date. [This act] is effective on passage and approval.

- END -

I hereby certify that the within bill,
HB 0616, originated in the House.

Chief Clerk of the House

Speaker of the House

Signed this _____ day
of _____, 2011.

President of the Senate

Signed this _____ day
of _____, 2011.

HOUSE BILL NO. 616

INTRODUCED BY RANDALL, STAHL, WARBURTON, SALOMON, ESP, BECK, BLYTON, ROSENDALE,
WAGNER, HALE, OSMUNDSON, HANSEN, VANCE, HARRIS, KNUDSEN

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