

**SENATE BILL 4 - POTENTIAL IMPACTS TO THE ASSESSMENT OF AGRICULTURAL PROPERTIES****Introduction**

Agricultural properties are currently reappraised every six years. This means that the value determined for a property at the beginning of the period is used for the entire six year period unless a change occurs to an individual property that requires it to be reappraised. SB4 would require the department to reappraise all agricultural properties annually.

The assessed value of agricultural property is determined using a statutory formula composed of five components; land use, productivity, commodity price, crop share, capitalization rate. Increases in value are phased in. The purpose of this paper is to briefly discuss how provisions in SB4 may impact each of the five valuation components and the phase in.

**Land use changes**

Current Practice- Land use changes on agricultural land are assessed to the landowner in the year following discovery at any time during the six year period.

SB4 Impact- There would be no change to our current practice of assessing land use changes. The department is well positioned to update agricultural land use changes annually.

**Productivity Determination**

Current Practice - Productivity is based on the NRCS soil survey information available at the start of the six year period.

SB4 Impact - If new NRCS soil survey information becomes available it would be included the following year. This could mean marginal productivity changes, resulting in an increase or decrease in value, however the vast majority of productivity changes would result in minor changes to value as soil information does not change dramatically. The department is well positioned to update soil survey information annually.

**Commodity price**

Current Practice - Commodity prices are determined at the beginning of the six year period by using a seven year Olympic average from Ag Statistics. This has the potential to cause sticker shock every six years during periods of increasing commodity prices.

SB4 Impact - Commodity prices would continue to be averaged, but would be recalculated every year. We assume that this would result in a marginal change in value every year, possibly an increase or decrease, and that it would reduce the potential to cause sticker shock every six years.

**Crop Shares and Capitalization Rate**

Current Practice - The crop share and capitalization rate are determined at the beginning of the six year period and remain throughout. In the past the capitalization rate has been determined after consultation with the Ag Advisory Committee.

SB4 Impact - The crop share and capitalization rate would be reviewed every year. The department assumes that neither would be changed unless there was a recommendation to do so from the Ag Advisory Committee or the Legislature.

**Phase in**

Current Practice - Current law requires increases in value due to a classification change to be phased in at 1/6<sup>th</sup> each year of the six year period. This can be difficult for taxpayers to understand and for department staff to explain.

SB4 Impact - An annual reappraisal would eliminate the need for a phase in. This would make assessments more transparent and easier to understand and explain.