

SENATE BILL NO. 17

INTRODUCED BY DICK BARRETT

BY REQUEST OF THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING LAWS RELATED TO THE AGRICULTURAL LAND VALUATION ADVISORY COMMITTEE; REMOVING PROVISIONS THAT THE DEPARTMENT OF REVENUE CAN CHANGE THE CAPITALIZATION RATE, BASE WATER COST, BASE PERIOD, AND AVERAGING METHOD ONLY WITH A RECOMMENDATION FROM THE ADVISORY COMMITTEE; REQUIRING THE APPOINTMENT OF LEGISLATORS TO THE ADVISORY COMMITTEE AS NONVOTING MEMBERS; AND AMENDING SECTION 15-7-201, MCA."

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

**Section 1.** 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~~. Classifications include but are not limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land must be subclassified by productive capacity. Productive capacity is determined based on yield.

(4) 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 subclass;
- (b) I is the per-acre net income of agricultural land in each subclass and is to be determined as provided in subsection (5); and
- (c) R is the capitalization rate and, unless the ~~advisory committee recommends a different rate and the department adopts the recommended~~ a different capitalization rate by rule, is equal to 6.4%. This capitalization

1 rate must remain in effect until the next revaluation cycle.

2 (5) (a) Net income must be determined separately for each subclass.

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

6 (i) Commodity price data and cost of production data for the base period must be obtained from the  
7 Montana Agricultural Statistics, the Montana crop and livestock reporting service, and other sources of publicly  
8 available information if considered appropriate by the ~~advisory committee~~ department.

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

11 (iii) Allowable water costs consist only of the per-acre labor costs, energy costs of irrigation, and, unless  
12 the ~~advisory committee recommends otherwise and the department adopts the recommended~~ a different cost  
13 by rule, a base water cost of \$15 for each acre of irrigated land. Total allowable water costs may not exceed \$50  
14 for each acre of irrigated land. Labor and energy costs must be determined as follows:

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

17 (B) Energy costs must be based on per-acre energy costs incurred in the energy cost base year, which  
18 is the calendar year immediately preceding the year specified by the department in 15-7-103(6). By July 1 of the  
19 year following the energy cost base year, an owner of irrigated land shall provide the department, on a form  
20 prescribed by the department, with energy costs incurred in that energy cost base year. In the event that no  
21 energy costs were incurred in the energy cost base year, the owner of irrigated land shall provide the department  
22 with energy costs from the most recent year available. The department shall adjust the most recent year's energy  
23 costs to reflect costs in the energy cost base year.

24 (c) The base crop for valuation of irrigated land is alfalfa hay adjusted to 80% of the sales price, and the  
25 base crop for valuation of nonirrigated land is spring wheat. The base unit for valuation of grazing lands is animal  
26 unit months, defined as the average monthly requirement of pasture forage to support a 1,200-pound cow with  
27 a calf or its equivalent.

28 (d) Unless the ~~advisory committee recommends a different base period and the department adopts the~~  
29 ~~recommended~~ a different base period by rule, the base period used to determine net income must be the most  
30 recent 7 years for which data is available prior to the date the revaluation cycle ends. Unless the ~~advisory~~

1 ~~committee recommends a different averaging method and the department adopts the recommended~~ a different  
 2 averaging method by rule, data referred to in subsection (5)(b) must be averaged, but the average must exclude  
 3 the lowest and highest yearly data in the period.

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

6 (7) ~~(a) The governor shall appoint an~~ There is an agricultural land valuation advisory committee  
 7 consisting of persons knowledgeable in agriculture and agricultural economics. The advisory committee ~~shall~~  
 8 ~~include~~ includes:

9 (i) members appointed by the governor, including one member of the who is on staff at the Montana state  
 10 university-Bozeman; college of agriculture, staff; and

11 (ii) two members of the senate, one appointed by the president and one by the senate minority leader,  
 12 and two members of the house of representatives, one appointed by the speaker of the house and one by the  
 13 house minority leader. The legislative members are nonvoting members. Legislative members shall serve without  
 14 compensation but are entitled to reimbursements for travel, meals, and lodging while engaged in committee  
 15 business as provided in 2-18-501 through 2-18-503.

16 (b) The advisory committee shall:

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

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

20 ~~(c)~~(iii) recommend appropriate base periods and averaging methods to the department;

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

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

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

27 ~~(g)~~(vii) provide methods for adjusting agricultural land productivity values when more site-specific data  
 28 is available and pertinent; and

29 ~~(h)~~(viii) recommend to the department definitions for "site-specific" and "pertinent".

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