

*1st half of minutes*

MINUTES OF THE MEETING OF THE HOUSE AGRICULTURE, LIVESTOCK  
AND IRRIGATION COMMITTEE  
February 2, 1983

CHAIRMAN JACOBSEN told committee members that this would not be a bill hearing. It is a hearing we requested as an Agriculture Committee. We asked the Department of Revenue to give their presentation on the proposed rules for reclassification of agricultural lands. Once that presentation is done, I will ask for some comments from a few of the witnesses here. We will then have questions from the committee. He informed all witnesses that this meeting is being taped and requested that they speak clearly so that it will be on record. He then asked Greg Groepper, from the Department of Revenue, to present the proposed rules.

GREG GROEPPER, Administrator of the Property Assessment Division, Department of Revenue, said the presentation is going to be in two parts. I would like to give the committee a little background on the reappraisal, in general, because it affects not only agricultural properties, but all class four properties in the state. I have asked Les Saisbury, Bureau Chief for the Agriculture Bureau, to come along. He is the individual who is primarily responsible for doing all the research, meeting with public groups and getting input on this subject. I would also like to remind everybody here that we are in the process of adopting administrative rules and we still have to have a hearing. There is a hearing scheduled for February 17, 1983. Originally, the hearing was scheduled in the Mitchell Building but now it will be held in a larger conference room in the Cogswell Building. There will also be a second hearing on the 28th of February in Glendive. That meeting will be in the evening at 7:00 p.m., in the Moose Lodge. The locations of both hearings have been left with the Secretary of State's office. If you have concerns about what is presented during this meeting, we will take those concerns into consideration in our administrative rule hearing.

To start with, I will give you some information on the reappraisal situation when we first started. After the 1981 legislative session, we were directed by the Revenue Oversight Committee to come before that committee and explain what we would be doing, as a department, with reappraisal prior to adopting our reappraisal plan, which is required in statute. The situation as it exists during this reappraisal cycle, which ends January 1, 1986, is that we have different value dates that we are working with. We are using a 1972 value date for residential property, a 1976 value date for commercial and industrial properties, timber property has a five-year average (from 1967 to 1971), and a 1963 value date for agricultural properties. There has been a lot of discussion, controversy and court suits over the use of those different value dates. Once the appraisal cycle is over, beginning tax year 1986, the Department is

proposing to standardize the value dates so we will be looking at the same time periods. Residential, commercial, and industrial properties will have value dates of January 1, 1982. Agricultural and timber properties, which are required by statute to be valued on a productivity basis, will have a value date based on a five-year average from 1977 to January 1, 1982. We talked to the Revenue Oversight Committee and presented how we intended to handle these kinds of value dates. We adopted our appraisal plan in January, 1981. The methods of how we intended to approach this subject were developed and distributed in January, 1981, to all county assessors and county commissioners as required by statute. We went ahead and held rule hearings on the different manuals we were going to use to make sure that we were covering all bases. So far, we have given a status of all property types dealt with in reappraisal. We had a rule hearing on all residential property and adopted administrative rules. The same thing has happened with commercial and industrial properties. We had the rule hearings, we adopted the administrative rules and specified the manual. We had the rule hearing on timber property in December and we are still in the process of putting together our responses from the various people that testified at that hearing. The rule has not been adopted, we have not gathered all of our responses, and we don't have a recommendation from the hearings officer yet. Agricultural property is scheduled for rule hearing in Helena on February 17, and in Glendive on February 28. After that rule hearings we will respond to all the concerns, ship our responses to the hearings officer and then send the responses to the Department director for adoption of a final rule. In April of 1982, we went before the Governor's Ad Hoc Committee on Agriculture and presented different options on how we might develop the appraisal plan. We started soliciting public comment that summer. We went before the Revenue Oversight Committee in September with the recommendation that the Department not value agriculture property on a gross value basis. As a result of the input received from the public we are using the schedule we now have. Before we get into that schedule, we appreciate that fact that the rule has not been adopted because there has not been a formal hearing. Things could certainly change, subject to the input received today. It is our presumption that the 49th Legislature will be wrestling with the question of whether or not the taxable classification of all these properties should be changed. Once the rules are in place, we will have a year or so to gather data to put together a good study. We will then come before the 49th Legislature with that information and have them decide what the taxable classification of the various properties should be.

Nothing you are going to hear today will affect tax unless the classification rates do not change. If the classification rates stay exactly the same, I think you would be looking at this kind of effect. That is assuming the classification rate for property stays at 8.55% and classification for this property on a productivity basis stays at 30%. With that, I would like to ask Les Saisbury to talk about the specifics that went into building this schedule. We have some comparisons and would be happy to answer any questions you may have.

My name is Les Saisbury and I would like to expand a little bit on what has occurred in the development of the agricultural land values and bring you up to date on what has occurred in the past year. I will pass out copies of the study that was done. The process of updating the agricultural values began over a year ago. With that also began a problem of deciding or determining how we were going to accomplish the update of these agricultural land values. We began taking a look at how the values we're currently using were established (which was in 1963). We began searching for data that may be available with which to accomplish the same determination for this evaluation update. The methodology that was used back in 1963 was the capitalization of net income method or the income approach involving property. The income approach is a method that is commonly accepted as an appraisal means for valuing other types of property, including commercial property such as apartment buildings that have a revenue generating capacity. The net income method is the method that is talked about most often in valuing agriculture properties throughout the United States. In getting into this study we found that there was a great abundance of data available regarding commodity prices and the amount of the various crops that are grown throughout the State of Montana. To arrive at a net income figure you also need to have the other side of the coin and that being the operating expenses or the variable costs associated with the different types of agricultural operations. We found that there is not a lot of information published or printed that covers typical operating expenses on the various types of agricultural operations. That prompted the thinking that perhaps there were other methods of valuing agricultural land and also prompted the four proposals which we mailed out in August of this past year. Four alternatives were suggested. Those four alternatives dealt with income. The first two alternatives dealt with, basically, the gross income side of it. Fortunately, we were able to get a lot of data on that. The third option dealt with simply trimming up the existing

evaluation schedules by using factors supplied by the United States Department of Agriculture and bringing those up to a current level. The fourth alternative outlined the method of valuing based upon capitalizing net income. Initially, the Department of Revenue suggested a second alternative, that being one dealing with the gross income as a method of devising values on agricultural lands. It was not too long after we mailed out these initial proposals, however, that we found out there was a lot of opposition amongst the agricultural section throughout the state as well as with the university people. The agricultural economics people at Montana State University contended that gross income is not the method to be used in deriving the deductive value of agriculture lands. We received enough comments from the groups of people affected that we felt we were going to have to change our direction and go with methodology that is most accepted. That is the net income approach or the capitalization of agricultural net income to be used in devising the values that will be used for property tax purposes on agricultural land throughout the State of Montana. Back in April, 1982, the Director of the Department of Revenue met before the Governor's Ad Hoc Committee on Agriculture and indicated that we fully intended to keep the groups that would be affected by these changes aware of what we were proposing to the Department of Revenue. We also said that we would be soliciting comments, ideas or data from those groups as well. When we mailed out the four alternatives in August, 1982, we asked that all responses be submitted back to us by the end of August. We realized that that was a fairly short time period considering that the fall of the year is a difficult time for the farming community with harvest and seeding coming on. The reason that we had asked for comment was so we could get a report to the Revenue Oversight Committee at their September meeting. Needless to say, we had not received a lot of written comment prior to that meeting. As a result of that, and discussing the progress of this valuation study with the Revenue Oversight Committee, it was decided that we would table any decisions until we solicit further comment from the agricultural groups affected by the proposals that were being made. The decisions would be reported on again at their next meeting, which I believe was held in November of 1982. During the course of that three- or four-month period, I had occasion to meet with various agricultural groups and discuss the proposals that we were maintaining. I pointed out the intention of this re-evaluation effort and again asked if there was data that we had inadvertently missed that should be included or incorporated into this study. In the November meeting, with the Revenue Oversight Committee, we prepared a summary of the comments that we felt provided a substantive reasoning for some change. As a result of that, we indicated that we were anticipating some changes in the values from the initial

proposal. We indicated also that it was the general feeling of the groups we had talked to, that most of agriculture in Montana was in favor of the capitalizing of net income approach or method of valuing agriculture property. In determining what the value of agricultural land should be, we would take a look at the net agricultural earnings capacity of that property. Upon concluding the meeting with the Oversight Committee, in November, we proceeded on with the study to incorporate some of the information that we had been given and make the changes that we felt were substantiated as a result of comment received. The results of those changes are what we are proposing to go into the administrative rules. The values aren't the same on the hearing notice as the copies that I passed out. We are to the point now of going through administrative rules hearings to again get any further comments or ideas or date with the hope of having the set of values with which to apply to agriculture land by the end of this spring.

Mr. Saisburg referred to a chart he brought with him. The chart shows three different situations. The first column shows the average value per acre that is applied to classes of agriculture land, presently, as a result of the development of the values in 1963. The second column shows the values on a per acre basis. These are averages for that entire class of agriculture land, but these are values that were initially proposed in the August mailout of the four alternatives. The final column represents the average values per class of agriculture land that you see indicated in the administrative rule hearing notices.

We felt there was some basis for undergoing the update process twice during that time period and agriculture land has not been revalued since 1963. That would be the primary reason why we are updating the values at this time. We feel there is an inequitable situation with the other property types being updated on a five year cycle basis now, as required by statute, but not with the agricultural land. The second column recognizes the second alternative that we referred to in the initial mailout in August of this past year. These values are reflective of gross income on that particular class of agricultural property. Agricultural land is segregated into five separate and distinct categories. Those categories are non-irrigated farm land in the summer fallow basis and non-irrigated farm land in the continuous crop basis, grazing land, wild hay land, and tillable irrigated farm land. I should take a moment to explain the differences, because I think the questions regarding irrigated land values is the major reason for the meeting that we are currently undergoing.

There is a difference, and a significant one, between the irrigated lands in Montana. It is defined by the length of growing season in that particular area. The longer the growing season, the more ability that land has to produce more crops. We find the maximum rotation of irrigated land down along the lower Yellowstone where the maximum variety of irrigated crops can be grown. Those crops include: corn, sugar beets, small grain, alfalfa and dry beans. The medium rotation has a shorter growing season. The crops are limited to: small grains, alfalfa, and perhaps some sugar beets or corn. When we get into the minimum rotation, we are getting into most of Western Montana in that the basic rotation of crops on that irrigated acre is determined by the fact that alfalfa and small grains are all that can be grown. That distinction was made back when these schedules were initially adopted in 1963 and we feel that that distinction is still there. There are differences throughout Montana on the types of irrigated property that we would find. Values were based upon the gross earnings or gross income of the crops that we isolated to have an impact on the value of that acre statewide. The process that we are involved in is to determine a set of values that we could apply statewide. We are looking for a typical type operation of the typical income and expenses that you could find from one end of the state to the other. That is a rather difficult job in itself because we have quite a diverse state and the types of operations vary quite dramatically from one corner to the next and maybe from one neighbor to the next, in talking specific counties. This was the attempt at that time because we were proposing the use of the gross income. There is a lot of data available and published regarding commodity prices. The amounts of those commodities that are grown on that basis were viewed as the type of information that could be easily updated in the future. We discovered that the agricultural community does not feel that this would generate a realistic value and we would have agreed with that from the beginning, but we felt it could provide an equitable basis for valuing the different types of agricultural land. As a result of the comments that we received, the accepted methodology is capitalizing the net income. That was the fourth alternative in the original proposal. The values have been changed from that initial proposal. The present values are higher in some instances than the proposal we initially gave you but they are lower on others. The present proposal that you see in the administrative rule notice are higher straight across the board. There is another reason that we felt it imperative to take a look at agricultural land values. We feel that there are inequities in the way the different types of agricultural land are valued currently under the existing statute. That is basically seen in how irrigated land is valued. In determining

the values in 1963, the formula was followed where you started with the gross income, subtracted the operating expenses, and capitalize that to arrive at the land value. That capitalized land value represented the values that are on our valuation schedules and in the present administrative rules on all classes other than tillable, irrigated farm land. On the irrigated, tillable farm land, another adjustment was granted. They took 40% of the capitalized net income figure and used that 40% figure as a basis for the values on irrigated land. We feel that is an inequitable situation within the class of agricultural land itself. An adjustment was granted on irrigated land that was not given to other types of agricultural property. In addition to that, another adjustment was granted in the case of irrigated land that was not given to other types of agricultural property. In the case of irrigated land, there is another adjustment given depending on the cost of applying the water. It is set up such that for increased cost in applying the water there is a decrease in the assessed value or the value applied to that property. This appears to be an inequity to us because this was not granted in the cases of other types of agricultural property. The operating costs or water costs, which is an operating cost to that irrigated land owner, was given special benefits. No corresponding decrease in assessed value was granted to the nonirrigated farmer that was maybe putting more fertilizer on or more expense in one manner or another to his property. We view this to be an inequitable situation to the point that irrigated land values have been adjusted by virtue of these schedules during the past 20 years, but other types of agricultural property have not. If you could look at the schedules, which are the present valuation schedules that we are using and have been using for the past 20 years, a lot of the irrigated land is valued in the water costs class \$7.50 and over.

We propose to deal with irrigated lands on the same basis as other types of agricultural property. That would be to not grant the 40% reduction from the capitalized net income and to not set up the diverse scheduling for incremental increases. There has been a lot of concern generated statewide on what is occurring with these values and a lot of the concern centered around the letter to the editor that found its way into most of the major papers in the state. The letter referred to the effects these values might have on taxes. I have felt concern that the information in that letter to the editor was quite misleading in that we were talking basically about what was going to happen with irrigated land. Some of the information in regard to irrigated lands was erroneous in the way that it appeared in that article. I think it was stated that they expect a 400% increase in taxes on irrigated land.

I am sure you will agree that we really don't know why this would occur with taxes on these properties until several things are determined: What is the taxable percentage going to be on this class of property as well as all the other classes of property located in that particular taxing jurisdiction? Secondly, what is the mill levy going to be in that taxing jurisdiction with which to arrive at the taxes due on this property? It is very difficult at this point in time to predict the effect these values would have on taxes. I think you could make some rather gigantic assumptions, as the article referred to, and could assume the static mill levy and assume the certain percentage applied to those properties in that particular tax class. I think we are all going to have to wait and see what happens with other properties in the state, what happens with the taxable percentage applied to those other properties and finally what happens at the local taxing jurisdiction regarding the mill levies. I had occasion to meet last week with a group of irrigated farmers up in the northern part of the state. After talking about what we were proposing to do and indicating to them that perhaps the information in that article was erroneous and not based on facts, those values that he was representing in that article may be totally something different when the actual taxes are figured. With irrigated lands, the values that are currently used in the administrative rules are those that you see under the column heading 1963 average values. The values that were determined to begin with are the values that you see under the asterisked 1963 irrigated land values before the 60% reduction and water costs reductions. There is quite a difference there. Had irrigated land been valued the same as other types of agricultural properties, the percentage increase that we are talking about now, from one class to the other and in particular the irrigated land, would not show the gigantic increases that you come up with by taking a look at the values that we are currently using versus the values we are proposing.

This could explain a lot of the reasons why irrigated land values appear to be taking a much larger increase than the other types of agricultural lands. During the course of the comment period, we had occasion to incorporate some new data into the development of raising land values. That class of land happens to have the least available published data regarding operating expenses of all the five classes of property. The data that we included in the initial proposal was based on the rather limited data we have been able to acquire. This is one of the first points that was brought up to us as well that the data that we were using was not representative. It was suggested that we go to the University in Bozeman and talk to the agricultural extension specialist to



determine whether or not we could get some information on the grazing land values. He has done a study in Montana regarding the income and operating expenses surrounding ranches or grazing land in particular. He did have that information available and we incorporated that data into the study. The result was that values on grazing lands have changed quite a bit from the initial proposal. There has been considerable change there. Another point of concern was in the capitalization rate. In the capitalizing of net income, you are trying to determine the present worth of future benefits. You are trying to determine what value the land would carry to be able to pay for the current going interest rate and cover the property taxes. In determining capitalization rates there are probably as many ideas on how to determine the cap rate as there are people who wish to talk about them. There are a lot of ways of doing it and there are a lot of different interest rates that can be considered. There are risk factors involved. We knew that was going to be an area of concern. We were suggesting a 5.2% capitalization rate. This rate was decided upon after a meeting with the agricultural economics people at Montana State University. We went to those folks thinking that they are experts in the area of agricultural economics and that they should be able to help us out in determining the capitalization rates to apply for the purposes that we are using. They offered a formula that we incorporated into the initial study that ended up with the capitalization rate of 5.2%. During the course of acquiring comments and modifying the original proposals we discovered that we had not allowed for an effective tax rate in that overall capitalization formula. A lot of the difference between alternative four that was mailed out in August and what is currently being proposed was due to a change in the capitalization rate. The capitalization rate has a tremendous effect on the end value for determining what agricultural land is worth. I am certain that that is still subject to some scrutiny as well. The indication was that there may be additional information available elsewhere regarding more appropriate cap rates. We said if you can submit some substantive data that would support the change in cap rate, we would consider it. To date, we have not received any substantive change or indication that would preclude a change in that cap rate. The cap rate as we are working with it now is made up of two portions: a discount portion and an effective tax rate portion. The discount portion is still 5.2%. Added on to that is an effective tax rate of 5.3% which gives an overall capitalization rate of 10.5%. That rate has a lot to do with the level of the values that you see on the proposals before you. I think that pretty well covers what I had intended to talk about.

CHAIRMAN JACOBSEN thanked Mr. Saisbury and called upon Dennis Burr to give a presentation. He is a former employee of the Department of Revenue.

My name is Dennis Burr. I am a lobbyist for the Montana Taxpayers' Association, although I am not appearing here in that capacity. I have been asked by the Montana Stockgrowers Association and some others to analyze the issue and appear on their behalf at the rules hearing on the 17th of February. There are two issues to be discussed that were raised before this committee. The second issue, of course, is the rules and the equity of these proposed changes. The first issue, I think, is whether the Department of Revenue has the authority to change the land values that are currently in existence. I made a copy of what I think are the pertinent statutes involving taxation of agricultural land. My basic contention is that the legislature has been somewhat remiss in providing guidance to the Department of Revenue in how agricultural lands should be valued. On the first page that I have handed you there are two references to agricultural land and 15-7-103, Paragraph (2) says all land shall be classified according to their use or uses and graded within each class according to soil and productive capacity. Paragraph (4) says all agricultural lands must be classified and appraised as agricultural lands without regard to the best and highest value use of adjacent or neighboring lands. On the second page there is a little more substance to it. Section 15-7-201 says since the market value of many farm properties is based upon speculative purchases which do not reflect the productive capability of farms, it is the legislative intent that bona fide properties shall be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes. Section 15-7-203, says in valuing as agricultural, the Department of Revenue shall consider only those indicia of value which such land has for agricultural use. Now there are a lot of words describing how not to value agricultural land but there is really nothing in the statutes that describes how you should value agricultural land. I think a good example of that was the rules as originally proposed by the Department of Revenue. In August of 1982, the Department sent out some information that contained four different methods of valuing agricultural land. Apparently the Department considered each of the four to be legal, constitutional and proper methods of valuing agricultural land. Even though the four methods and the values arrived at by those four methods differed by as much as 1000%, the Department feels apparently that all four would be acceptable according to the statutes that are in place. The statutes involving agricultural

land are probably unconstitutionally vague. If they are not unconstitutionally vague, the legislature has certainly delegated more taxing authority to the Department of Revenue than it can probably legally do. I think that this committee can have an influence in that regard. You can change the law, but you can't have much influence on the rules. In reference to the proposals, let me give you an example of what I mean by varying values in the four proposals that the Department originally mailed out. On non-irrigated farm land 183, which is 31 bushels per acre, the current value is \$48.60. The first proposal would have changed that to \$50.06 and that was what has been referred to as a gross income approach. All that amounts to is it is taking the number of bushels of wheat that the land will produce, multiply it by the price of wheat, and that is the assessed value of the land. That is a pretty simple method, but it doesn't really relate to anything. That is very hard to justify other than to say that the information is available. The second alternative came up with \$39.69 for that particular land and it was pretty much the same approach. (The price of wheat times the number of bushels produced.) It was adjusted so that the differences between classes as they currently exist in the old schedules would be maintained in the new schedules. If you do that, you haven't really changed anything at all outside of values. You have kept the relative difference in land values the same, you just changed the dollar amounts. The third approach came up with a value of \$261.95 on the same type of land. As I recall, that approach was simply taking 1963 values and indexing them up for inflation. I think that would be rather hard to justify as well. The last method was capitalizing net income which arrives at the value of \$108.00 for that particular land. My conclusion, again, is that you really need to take a good look at that law and see if you can't give the Department more guidance than they have now as to how to value agriculture land. I really believe that despite the good efforts of the Department in arriving at fair and equitable land values, they could satisfy everyone in this room and all agricultural societies that are interested in this issue. I think one owner of agricultural land that decided to pursue the matter in court could disrupt the whole system. It would be a result of vagueness of the statutes. It is really not fair to put the Department in a position of having as much discretion as they currently have. Should these values be changed at all is another question that should be considered. The only explanation that I have heard for changing the values is that they are old. They were established in 1963. I am not sure that is sufficient justification for changing schedules in an area where you are

required to not consider market value as a means of arriving at the assessment and property taxes of this land. The fact that those schedules have been around that long is not, of itself, sufficient reason to change them. There have been references that irrigated land is low in relation to other properties. This is probably a valid reason for changing the schedule but there is no requirement that agricultural land carry a 1981 date just because urban properties carry a 1981 date. I relate the argument that it has not been the legislature's intent that these values be changed. I was at the Department of Revenue from 1971 to 1979 in the position that Greg Groepper is in now. During that time, there was a reappraisal of all the property in the state for tax purposes. New values went on the tax roles in 1978. The 1975 session, possibly the 1977 session, changed some statutes relating to property taxes because of the reappraisal of property. One of the things that they did was to put a schedule in the statutes to change the classification percentage of buildings, improvements, and land, not agricultural land, so that value increases as a result of reappraisal would not result in tax increases. What happened is that when property was revalued last time, the average urban property went up 47% in value. That compares to Greg's 300% or whatever the expected is next time. The average increase was 47%. The classification rate at that time for urban property was 12%. Because of that increase, the classification rate was dropped to 8.55%. On the average, there was a 4% increase in the taxable value in Montana as a result of the reappraisal, and that was all. The same bill that reduced the 12% figure to 8.5% originally included an adjustment on agricultural land classification. The 30% classification for agricultural land is also scheduled to decrease, under the bill, as it was proposed by the Department of Revenue. That bill was amended in the Senate to leave the 30% classification exactly where it was because the agricultural land schedules were not being changed. We had moved from a 1963 appraisal manual to 1972 appraisal manual on urban properties. We did not change the agricultural land values at that time so the 30% stayed the same. Let me give you an example of the impact of that. That doesn't mean that agricultural property wasn't reappraised, by the way, because it was. On the state average, the land was reclassified. Much of the land in the state was more productive than it had been 15 - 20 years before when it was originally classified. It moved up in those schedules an average of six bushels per acre. That resulted in an increase in the assessed value of agricultural land of about 30%. That 30% translated directly to a tax increase of 30% because the classification rate didn't change. To me, that was clear legislative intent not to change the 30% classification rate because the agricultural land values had not been changed even though land had been

moved up in the schedules to higher productive grades. I found a sheet that I had at Revenue for awhile and here are a couple of examples of what happened to land in 1978. Between 1977 and 1978, Roosevelt County wild hay land increased 209% simply as a result of the reappraisal of agricultural land. Nonirrigated farm land in Valley County went up 52% that year. Again for the same reason, land was simply moved up and became more productive. The last time property was reappraised, the sting was taken out of the urban property by changing the classification percentage. It wasn't taken out of the agricultural property because the 30% hike remained the same. During this current reappraisal cycle, I think the classification last time was done reasonably well. When the Department reclassifies agricultural land again, it won't increase through the schedules as much as it did in 1978, simply because there couldn't have been that much time passing as there was before. I would expect that agricultural land values will go up by moving through these schedules, but I don't think they'll go up 30% as they did the last time in the statewide area. Again, I think the legislature's intent was to leave those schedules where they are, and I think that is reflected in the decision to leave the 30% classification exactly where it is. The last legal point that I wanted to raise with you is that we are talking about capitalized income as the method of determining the assessed value for agricultural land. That is a method I support, and I think most of the agricultural community does. There will be some questions over capitalization rates of what is the net income. The amount of net income that the Department is capitalizing also has a large effect on the values that are arrived at. At the current time, I don't know if equipment depreciation is deducted in arriving at net income or if it is simply out-of-pocket costs for gasoline, seed or whatever used to grow crops. Those are the things that need to be considered in determining what net income is to be capitalized as well as determining what capitalization rate to use. The fact remains that capitalizing income is one of the three commonly accepted approaches to market value and market is not the standard for valuing agricultural land. I think that is another point that could be raised when challenging the Department's rule or the Department's ability to make any rule at all at this point. I have no objection to capitalized income as the approach. My suggestions to this committee would be to take a good look at something to give the Department of Revenue more strict guidance in the methods that they will use to value this land. Representative Manuel has a bill draft request; I don't think the bill has been introduced, and that bill would specify that the Department use capitalized net income as a method for establishing these land values. It would require

the Department to adopt rules explaining how they arrived at that capitalized net income. In other words, I think they should have to define the components of net income. They should have to explain how the capitalization rate was arrived at and whether there are other areas that they think need to be explained so that a person can look at the rule and understand what has been done. The other thing in that bill would require that only hay production be considered in setting values for irrigated land. That would probably result in a little more uniformity in irrigated land values across the state. I really think it is important that you at least be aware of those issues and possibly take some action because I really believe there will be some challenge to anything that the Department does. I asked the questions as to why the Department decided to change the values at this time in the first place. I still think it has been the legislature's intent to maintain the same schedules that are currently existing. But if they do need to be changed, I believe legislation needs to accompany that change or else I just don't think it is going to stand up. I don't really want to talk about their rules since the hearing will be on the 17th but I would note that in their original capitalization of income approach there were many classes of land that had no income, the values were zero. Those were mostly the lower range of nonirrigated lands. The proposal that we have had has values for those acres and they are apparently grazing land values. I think that it might be more equitable to take the position that probably most people have some good land and some bad land and if you have to get values on that lower end you might do it by reducing the top end a tad and putting some values on the lower end. It looks to me that the current system was to leave the top end high and simply adopt grazing values for the lower end of the untilled land. Questions like that are what I think needs to be discussed.

Vickie Lofthouse, Secretary

*2nd half of minutes*

MINUTES OF THE MEETING OF THE AGRICULTURE COMMITTEE  
FEBRUARY 2, 1983

RE: DEPARTMENT OF REVENUE HEARING ON PROPOSED RULE CHANGES  
FOR AGRICULTURAL LAND RECLASSIFICATION

Chairman Jacobsen asked for a show of hands from persons who wished to testify with regard to proposed rule changes.

MR. PAUL TUTVEDT, rancher, Kalispell, Montana, said that with just a few of the figures taken out of the agricultural land tabulation study, we have to assume that their (Department of Revenue's) only real concern in why they want to reevaluate land is to possibly increase taxation. In talking with our congressional representatives from that area, we think they (Revenue) have a heck of a job ahead of them. There's got to be more money somewhere and naturally we've got to look into every avenue of approach to find it. So we've first got to question the possibility whether they (taxes) should even be on land itself or property values. We have to take into consideration the fact of the difference between summer fallow ground and irrigation type of ground, and whether or not right now agriculture can support the taxes that it is paying. From this study, the average value of barley for the last five years is quoted at \$2.14 a bushel. That does not take into consideration what happened in 1982, nor what we are afraid is going to happen in 1983. But still using that \$2.14, we have an average bushel yield here of 62.4 on all irrigated lands, again in the study. This gives us an average gross return of \$133.54. Now the operating costs (again in this study) are \$2.03 per bushel. But they did not in this particular study give us a breakdown of what these operating costs include. I could not come back to those figures at all in our own operation. I had to feel that land itself was not included. And so then we have operating costs of \$126.67 per acre against a gross of 133, leaves us only \$6.37 an acre. But again averages like Greg (Groepper) mentioned really don't hold too well. An average farmer today cannot survive, so he has to be better than average and yet our particular farm fits in here. But we have better than a 90 bushel average of barley off that particular farm.

Our operating cost of barley per acre is \$139.15. If we took the \$2.14, we get \$192.60 return, but on top of that we have to put some capitalization or amortization to the cost of that land. Again we use an \$1,150 average price of irrigated land in here, so let's take that at 5%. Yet they quote a 9.62 average federal land bank cost. But

using just 5% to go back to amortize against ownership, we come up with \$2.28 1/2 cents to produce a cost per bushel of barley and yet our average return is \$2.14, so we're definitely on the negative side, so we've got to evaluate whether agriculture can support.

The next major concern we come to is on page 14, when we have our market value right in the center of the page with irrigated farm land, dry crop land and then non-irrigated grazing. We go from \$375 on dry crop land to a market value, February 1, 1981, of \$1,155 per irrigated ground. We take that percentage and break it down to an average proposed value of \$84 for dry crop land and \$260 for an irrigated piece of farm ground. Again this is 3.13 or 3.09 and the percentages are equal there.

Our particular farm was turned from a dry land farm to an irrigated farm at a cost of approximately \$150 per acre. How can we change the taxable value or the market value to establish the taxing base by putting \$150 increased cost into the land and all of a sudden tripling its value and it doesn't triple its return? When you go to the continual cropping, the summer fallow, or down here to your average in here, (referred to the Dept. of Revenue chart) the best we can get is a double of yield.

And as I referred to where we can get more of a maximum yield, it isn't a justification. Again, how can we go from 34 to 36, which is about 1.75%. Here we have to go two times, here we have to go 10 times, here about seven times, here four times (referring to chart). Is that any justification here? If this is right, then everything below there has got to be wrong. We were fortunate to go to continual cropping. There are many here who were summer fallowing before and just tried to stay with it. Their land didn't change, but they had to try and change through farming practices or go to continual crop. A lot of that will be backed off if taxation is going to go in this relation.

Then we get down to what they are going to classify as irrigated ground. Not like hypothetical cases, but some actual cases up in our own foggy bog. We have a piece of ground we lease. We have the water rights on that particular ground. It's landlocked as far as water is concerned and we own the only irrigation system on it. So is that irrigated ground as far as that landowner is concerned? If we are going to increase taxation three to four times, as this could reflect, as we have changed values in this degree, then where is that going



to come from? And what's going to happen with that particular quarter section of ground? We will turn it back. We will no longer lease it. No one else can afford to lease it because it's dry and landlocked and is a marginal piece of ground. So it will be subdivided in 10's and 20's. We have other land right now, for our own protection, that has been approved for 10's and 20's development. It would immediately go on that market.

So we're losing agricultural production. I'm on a committee in Kalispell where we're supposed to protect agricultural ground and keep it in agriculture. This type of taxation will work very adversely against it. Also, we have some ground with about 1,000 acres in that particular block on which we put an irrigation system for insurance purposes, basically. We haven't used it the last two years. Is that irrigated ground? Because of the marginal costs in crops we're growing we've chosen not to irrigate. Power costs have increased 360% in the last two years according to the power company's own figures. There just isn't room left for taxation in property, but again to be fair here, and two years ago, irrigation systems were removed from the tax base, as personal property. Maybe that has to be put back on because you folks (Revenue) have got problems, and where you're going to get money is tough. And so then I don't know that I could argue the fact, if we had to go back to personal property taxes on the irrigation system. Because through that we did increase the productivity of that land. And it would be only fair for the person who sits across the river from us and has a half-section of land and chose not to irrigate. Should he be taxed on this rate, as opposed to us in this rate? Because of the fact that we put \$150 per acre additional into our land.

That 1,000 acres I referred to will become non-irrigated. We will pull that irrigation system. We will also then put quite a number of acres of land up for development purposes. Let the 10's and 20's disappear. This again would stop any increased irrigation land in the state of Montana. It would actually work adversely as to the gross income in the state of Montana.

Many of us could stand here and go into even finer points. We have to use this and I'm not a statistician. There's lots of it I couldn't understand, but I did understand those particular figures that related right there for me. So I thank you for your time.

CHAIRMAN JACOBSEN reminded those testifying to complete witness sheets for the record and opened the hearing to

questions from the Committee. He said, "I want to ask one question, as I've done three comparisons." There is talk about wheat and wild hay ton yields per acre. In the proposed rules, they're using a 26.21 average for wheat with an average price of \$3.31. That wheat on the market would then bring \$86.75 and is put in the class of 1A-1 and that's in a \$37.34 classification. When we go to continuous cropping where the average used is 19.89 bushels and take that times the same average price of wheat, \$65.83, where it goes into classification of CC-9, that's \$77.56. Let me point out here that although there is continuous cropping and summerfallow you may continuous crop that land for three years and go back to summerfallow or an alternate, so you'd be changing this classification every time land use changed. I don't see how this is workable.

Then going down and comparing wild hay yield on a 3 ton per acre basis, if the hay value is \$40-\$50 per ton, it would be \$120 or \$150 an acre. That acre of hay land is in a classification that rates at \$294. I would like to ask the Department where the rationale is even though you used a different method. I realize this is gross income, but it doesn't come out anywhere near what you're talking about with capitalization. We can't possibly get the amount of dollars for three ton of hay that it's classified at, if you sell it retail.

LES SAISBURY, Department of Revenue - According to the data that we were able to get, the hay price that we used was \$50.10 per ton on wild hay, less the operating expense of \$40.592 per ton. That left the net income per ton of \$9.508, and taking that times the mid-point of that grade, that we're talking about which is grade one wild hay, which reflects hay production of three tons and over, and in capitalizing that we come up with \$294.30. The data that we used and put into this is how these values were derived. As far as gross income and commodity prices, applying that to a ton or a production unit, in the case of hay land, we were looking at value per ton minus the operating costs per ton. We got a net income per ton and applied that to the existing grade schedules or productive grades that we have currently graded that land at, and arrived at a net return per acre or net income per acre, which we capitalized at 10 1/2% to arrive at the land value on that acre of land and the same was done on the other classes of agricultural property.

CHAIRMAN JACOBSEN - In order to clarify it, you have an acre of land here in all three categories. The productivity of that land has shown to be such that the

classification is not along the same percentage lines in those three categories as what you have it classified at.

LES SAISBURY - I'm not sure I understand the question.

CHAIRMAN JACOBSEN - You take a classification of gross income from \$86 to \$75 on summerfallow and valued it at \$37. If you take \$150 hay ground and raise it up to \$294 it has no comparison. It's way apart percentage-wise. I don't understand why.

LES SAISBURY - I'm not sure I understand the question. Is the comparison being made with the original proposal that was mailed out between the gross income analysis and the net income?

JACOBSEN - This is made from your proposed rules for the 17th, based on that.

SAISBURY - I'm not sure I'm getting the gist of it. Apparently I'm not.

JACOBSEN - That's all right. I can get with you afterwards on that.

MR. LAKE said he did not sign in for testimony. He said one of the questions I wanted to ask is if this will be penalizing a good operator that applies more fertilizer and better management tactics? My next question is, will this be a set rule for everything or is there going to be an adjustment for land with rocks on it or the shape of the land or the location or actual production within a certain area? Is this going to be adjusted or is this going to be a blanket rule for all land that will fall within the productive capability in that rank?

LES SAISBURY - The variation in values is created so that we can reflect differences in production on that acre of land. The intent and procedures that we use in classifying the land and grading the productivity of the land take into account the generally accepted farming practices in that area. The intent is that we do not penalize the better than average producer and by the same token, we do not give a break to the poorer than average producer as well. It is our intent that by using soil surveys where we can, where they're available, that we can eliminate this overvaluation of extremely good management, and by the same token we can value up to an average level the poorer than average producer on the basis of the soil.

The values would then be reflective of what that land is

capable of producing, and if you do have a soil situation that is rocky and the area is large enough to delineate on an aerial photograph (which may be one acre or five acres in size), and varies from the rest of the field, then that particular 5 acre tract for instance would be rated down on that basis. It does not have the same productive capacity as the balance of the field. So we feel that that's taken into account in the other aspect of this agricultural land appraisal, through the classification and evaluation of the productive yield on that land.

REP. MANUEL - As per Dennis Burr's testimony that the statutes say you can't set taxes on market value, are you not using market value in your rules?

LES SAISBURY - We feel we are not. That question first came up when we met with the university people down in Bozeman because, yes, the income approach is a means in determining market value, but in the case of agricultural land it may be a better means of determining what market values should be rather than what market value is and it's their feeling and ours as well, that the proper way to evaluate land is on a net earning capacity. As far as agricultural production from that, I guess in answer to your questions we don't feel that we are valuing at market value.

REP. BLISS - Did you have a lot of complaints from property owners other than farmland? You mentioned that was one of the reasons you updated the other and you haven't the agricultural. Did you have a lot of complaints from them about farm land not being brought up to date?

LES SAISBURY - I wouldn't say it had a lot of comments. I've heard it mentioned on many occasions in the time I've been with the Department as to how come that situation exists and I guess that's the extent of it. I've heard a lot of questions regarding how come agricultural land is not being revalued in accordance with other property types.

REP. BLISS - Have you had a lot of other complaints from cropland other than irrigation about that inequity?

LES SAISBURY - No, because I don't think that most people were aware that the inequity was in existence to begin with and I've not had any complaints from the non-irrigated cropland people, as a result of this proposal, to speak of.

REP. BLISS - So we can assume that there were not really a lot of complaints, that people were pretty well (interrupted)

LES SAISBURY - I'd say that because we've been at this level for approximately 20 years, people had accepted what was there and did not have any complaints.

REP. BLISS - So the emphasis is kind of an in-house thing in your department?

LES SAISBURY - I'd say that's part of it. Certainly we feel that it's necessary to bring this property in line with other real estate and it is also necessary to take care of inequitable situations.

REP. HOLLIDAY - Les, when you're talking about the misinformation that went out based on 400% increase, do you remember, was that based also on the assumption made on 200 mills at 14%?

SAISBURY - Yes, it was. I believe, the statement in that article was based on a set mill levy presently at 200 mills and comparing that with the mill levy to continue at 200 mills. After this revaluation took effect, the comparison also was made between the present 30% tax class versus 14% that we had suggested in this valuation study, results that would be necessary to apply to these proposed values to generate the same or similar tax base statewide. This is currently generated at 30% of the total present valuation schedules. My concern with the misleading part of that statement is that the article isolated the very best grade of the very best irrigated land in Montana to make the comparison and not all irrigated land in the other classes or grades are going to exhibit the same type of increase, in comparison to the values proposed versus the values that are presently in use.

I feel that was a very misleading statement. For one thing irrigated land in the state amounts to about 3% of the total taxable acreage in Montana. Of that 3% less than 1% of that irrigated land is in maximum rotation and greater than 1% is in the minimum rotation. I think by taking that particular example, it's misleading as it does not apply to most of the irrigated land in the state, and it illustrates probably the worst of the worst, if that could be illustrated. I think it was misleading because the article also said if the Department wanted a 14% taxable rate applied, it's not the authority of the Department of Revenue to establish taxable rates. We have suggested that in order to generate approximately the same total taxable value as is currently generated with the 30%, there would be an adjustment down to about 14%,

and there is not much mention made in that article either of what might happen given those assumptions with the mill levies and the taxable rate adjustments; what might happen to the other classes of land; non-irrigated farm land and grazing land. For your information the summerfallow farm land occupies about 22% of the total taxable increase in Montana. The grazing amounts to about 72% of all taxable acreage in the state.

I think it's misleading to talk about the one category that makes up for the small percentage and not indicate what might happen with the categories that make up the bulk of the land in Montana.

REP. HOLLIDAY - Did that article also say that there had been given irrigated land a tax break back 20 years ago and that possibly the huge increase is making up for the break?

SAISBURY - Yes, it did. It indicated that was what the Department was contending and that is, in fact, what the Department contends is that the 60% break was given on irrigated land values right off the top back when these values were established on all these agricultural classes. And we feel that is an inequitable situation when viewing the other types of agricultural use. In addition, as I mentioned when I was talking here a few minutes ago, there was another adjustment given to irrigated land in that for an increase in one particular operating cost item, that being the cost of applying water, a corresponding decrease in the assessed value was granted and is granted under the existing rules on agricultural land. That particular adjustment is not given to other types of agricultural land, including your summerfallow property and continuous crop farmland.

REP. HOLLIDAY - To change to something else, Les, on the 5.2% that you identified as discount, then there's an additional 5.3. What do you call that and what was the data that you received to justify that?

SAISBURY - The capitalization rate as it is proposed is made up of two portions, a discount portion and an effective tax rate portion, which are typical land developing capitalization rates. The discount portion is the 5.2% which reflects the 9.62% average federal land bank interest rate over that five year period adjusted for inflation, I would say. The University people would say we're making an adjustment because of an average annual growth in net income since World War II amounting to 4.25% or 4.27%, and that's where the 9.62% is adjusted down to 5.2%. That's the discount portion of the capitalization rate.

Where in the course of isolating operating expenses in the capitalization process normally property taxes are not deducted as an expense, but rather the effective tax rate is thrown into the capitalization rate so that the deduction appears but comes in on the end rather than as an item listed separately as an expense. Statutorily, normally, you're figuring an effective tax rate based upon the assessment ratio-to-market-value percentage, and apply that to the average mill levy. Well, statutorily we can't go to market value on ag land. We're saying that the effective tax rate is statutorily 5.3%, or taking 30% times the approximate average rural mill levy in the state, which is about 175 mills, and that gives you 5.3%. By adding that discount portion to the effective tax rate portion, it gives you an overall capitalization rate of 10.5%.

REP. HOLLIDAY - In that formula then, Les, in figuring costs and the expenses, someone mentioned depreciation. Is depreciation and return to land management and those costs...?

SAISBURY - Depreciation is figured as an expenditure. What we're trying to find is the rate of return on investment in the land. The cost of the land is not figured as an expense. Management is figured into expense and those are typical in appraisal property. There are expenditures that you do consider when you're running an income analysis and there are expenditures that you do not because you're attempting to find portions of that, such as the case with the land values or the expenditures on the land itself, the interest on the land.

REP. ROUSH - How do you determine the value of summer-fallow land since you don't have any production on summer-fallow? Do you use the market value of the land or what basis?

SAISBURY - Let me explain a little bit. When you get on into the classification and the rating of the land, summer-fallowing is an accepted practice in most of the state as far as dry land cropping is concerned. What that amounts to is that you get an income off that acre of ground every other year. What we do in grading that land, the statutes again say that we classify the land according to its use or uses and we grade the land according to soil productive capacity. What we do is go out and determine, by talking with as many producers as we can, what average production these individuals have obtained off those acreages in that area. We're talking in a summerfallow area, what is the

annual production; the years that the land is in production as the accepted practice is cropping every other year. So if they, for instance got an average of 25 bushels, that would be saying that they're getting 25 bushels every other year, but the income attributed to those 25 bushels can be spread over two years and in the valuation process where I'm looking, how the values on summerfallow land were set up on these proposals, that income is divided in half to reflect half of the income going to the year it's actually in production and then half the income going to the year it's in summerfallow. And of course, summerfallowing is an additional cost that is considered because of the year it's idle, there's a cost associated with that on an acre basis and I think that it's explained somewhat in the study that I handed out to begin with.

REP. ROUSH - In that analysis you adjust the income on that same piece of ground on that second year when that acreage is in production at a different rate, so aren't you really taxing the summerfallow at a higher rate for a two year period than you should be doing on a one year period?

SAISBURY - I don't think so. I believe we're saying this is the accepted practice and we grade the land or rate the productivity, and on a long-term average our procedure is to use 20 years as a basis for the grading of the land. And during the course of that 20 years that acre, if you want to look at one acre, has been in production only 10 years, and yet it's hypothetical to state that it would generate maybe 25 bushels average during the 10 years it was in production; and then we would say that income applied to that acre can only be half because half has to be attributed to the acre that is not in production that given year as well. I think we've allowed for the fact that this is an accepted management practice and have also allowed that the income is only realized every other year on that property.

REP. ELLERD - I have a former representative who would like to ask a question, Dale Davis.

MR. DAVIS - I see the trend in that it tends to increase as the production of the land decreases in land value, and I see in your formula that you use the same cost of production per unit per ton of alfalfa on land that produces four times the same cost of production as land that produces a half ton of hay. Had you considered the possible difference in the cost production? What I'm trying to say is, the cost of running over a piece of ground that is real low productive, rocky and rough and is going to cut at half a ton per acre, is limited simply because you can't travel very fast and you're wearing out your



piece of machinery just as much going over that acre as if you were cutting four tons to the acre. I wondered if you had considered any possibility of efficiency or volume.

SAISBURY - I think we tried to take a look at that, but the data that we were able to acquire and analyze we could not tie down to stating that if your production is down to a lower level, your operating expenditures really amount to a greater percentage on a production unit basis than if you were producing more tonnage of hay, for example, and we did not do that in fact.

MR. DAVIS - If you were out here cutting hay, would you agree that it will cost you more per ton for hay on land that produced less than a ton per acre than it would on land that produced four ton per acre?

SAISBURY - I don't know that I would agree to that or not. It's probably true, but I don't know that I would for one.

REP. KOEHNKE - Les, where do you get your averages for crops?

SAISBURY - We use for a guide, particularly on irrigated farm land, the data that comes from the statistical reporting service as published in the Montana Agricultural Statistics Bulletin, and we maintain a 20 year average on that production, particularly on non-irrigated farm land.

A lot of the data that went into developing these valuations that you see before you--the commodity prices and percentages of crops that were grown during this five year period as would pertain to those classes of land--that information came from this bulletin as well. The operating expense side of the thing is, of course, not addressed in that agricultural statistics bulletin. And on the cropland acreages we acquired a study put together by the Soil Conservation Service, which broke out the expenditures on a per unit of production basis and that was applied to all crop land. In valuing the grazing lands, there's not a lot of information available on either the income side of the thing, particularly on the side of expense, but again the value of cattle or calves as being commodities sold for ranchland purposes came from the statistical reporting service. The expenditures, however, came from the study that the range extension specialist at the University of Montana compiled and put together.

REP. KOEHNKE - What percentage of the producers report to their crop?

SAISBURY - I guess I couldn't speak to that, but I guess (unintelligible name) could, but I've heard various percentages and it's not like 100% or 80%, it's a relatively low percent. You've also got to understand that that's only one phase of how they arrive at their data in statistical reporting service, through the questionnaire route. A lot of the other data is compiled through gathering statistics from grain elevators, ASC offices, hail and federal property insurance and that sort of thing.

REP. SPAETH - I have a lot of questions, but I will ask the question I keep getting asked more and more that was alluded to by the letter you referenced, and maybe it's been answered, but I think my people are most concerned in how it's going to affect their taxes. Your response was, "very easily," because mill levies may go up or down or may change. Let's use a couple of hypotheticals. First, let's say someone with a new valuation on summer-fallow of 36.51 pays essentially the same taxes on that land, how is the person now with that same kind of scale and right tax schedule, the same person in the same district, be paying taxes on the maximum (now \$415) and then reverse that and say that the person has the maximum increase and is now going to pay the same tax rate, how would that affect the person who is having the summer-fallow? Essentially what I'm asking is the bottom line out there. That's what my constituents want to know.

SAISBURY - I'm sure everyone is interested in what the bottom line is going to be and the only way I think you can deal with it is, you've got to make an analysis and say we're going to make some assumptions. We'll assume that there's not going to be a change in mill levy because the total taxable value in that taxing jurisdiction is going to be the same as it is now. I doubt that that will happen but if it did, you could make that assumption. The second thing is to assume that they're not going to change the taxable percentage on that parcel of land. And that is where we would see some major increases on irrigated land, if that were to occur. But again I think it's a fairly complicated step that we're talking about and I don't know if we can illustrate what you wanted to see there, but you have one acre of dry land farming.

REP. SPAETH - Mr. Chairman, I just used that as a hypothetical, but maybe we can continue on and tell me what the bottom line is going to be, generally.

SAISBURY - I don't know that I can tell you, generally, what it's going to be. I'd say the bottom line statewide

is that agricultural values are going to increase about 92% over what they are currently right now. That's for all classes and all acres of agricultural land. The bottom line depends upon where that taxable percentage is set and then what happens at that local taxing jurisdiction or the mill rate. Does it decrease because of an increase in taxable valuation, does it stay the same, does it increase? There's a lot of other things associated there too which might regard potential legislation.

GREG GROEPPER - I think I understand what you're saying. You're talking about bottom line, you're talking about a tax shift. All things stay the same. His tax rate stays the same and the community needs to levy the same amount of mills. We don't want to talk about taxable value. What you're going to have in comparison is that people in Class 4 are going to pay a little bit more tax than they pay right now and the agricultural community, on the average, will pay a little less. But among the agricultural community, these kinds of people are going to pay more tax while these people will pay (referred to chart) a little less tax, if you want to talk bottom line, all things staying the same.

CHAIRMAN JACOBSEN advised those present that three more questions would be allowed after which the hearing would be closed.

REP. UNDERDAL - I wondered about the summerfallow and continuous crop. There's much land that's been in summerfallow that is becoming continuous crop, and how do you justify that tremendous variation between the values of continuous crop and summerfallow, because it's actually the same land with more chemical fertilizer per ground and all the operations that cost money.

SAISBURY - Basically, the way it's set right now the continuously cropped classification is in just one part of the state in the current grading structure and procedure we're using, and that's in Northwestern Montana around the Kalispell area. While we do have people who are double and triple cropping in some areas of the state that may not be an accepted practice, if we're in fact talking about an area that is predominately summerfallow. But in those areas where we do get at least three crops out of every four years, there's certainly more income produced on that acre of land when you get three crops off of it than when you compare the same four year period with summerfallow when you get two crops off it. And that's where the justification is, that there's more value in production off of that. By and large we're talking in

I'll tell you what the overriding concern was on all of this. I think we have to go back more than last session to remember the problems with the 34% which arose largely out of commercial property being valued in its 1976 date regardless of whether you can compare it or not, and residential property being valued in 1972. We got somewhere in the neighborhood of 5,000-6,000 property tax appeals from commercial property owners. We spent approximately 16 man years this year resolving that through stipulations and that's what resulted in having to bring commercial property down somewhat. You don't see any difference and our attorneys don't see any difference right here between timber and ag, which is the same classification of property. These are in the same class separate from this. They're all in the same class, but valued different dates. Our feeling is we can't afford to get ourselves into another lawsuit situation expending the amount of energy we've expended when the situation exists. This was the prime mover for reclassifying and trying to bring them current. If there's another question about equalization between classes, I think that can be answered because of one having to be valued on a productivity basis and the other on another situation.

When we got to the next part of the situation, what these values are going to do, our original recommendation and part of why I appreciated Dennis Burr's remarks, we had four different ways and we don't really have some clear statutes and we were kind of fishing as to what we should do because we weren't clear as to how these values were really derived, and we sent out these four recommendations. That was the purpose of recommendation 2 initially. We took some gross figures and then we made adjustments in those gross figures, and the impact in a particular class of land was the same among all people that had those classes of land in summerfallow.

There were 10 groups of land in summerfallow. The impact to the best land would be no different than the impact to the worst land. We tried to soften the impact and to do this valuation structure in a way that we wouldn't drive people so far out of business and all the rest of those concerns. I think legitimate points have been raised about whether we can do it this way or not. The direct answer to your question is, yes, we took that into consideration when we made our initial proposal and the agricultural community at large said 'I don't think you ought to do it that way'. I think there are some legitimate reasons for not doing it that way as well. We are of two minds, if you will, of which one of these we should use. So that's why we're here. I think if

light of the fact that to be called continuously cropped land, we have to be in an area of the state that has enough precipitation annually over a period of time to warrant that particular management practice.

REP. UNDERDAL - There's a lot of land that's been continuously summerfallowed that's being continuously cropped now because of the various reasons, but mostly because of fertilization. And I know those who have continuously cropped for ten years, and this is a dry-land area, the plains east of the continental divide, but because mostly of efficient operation they're being penalized for that efficiency.

SAISBURY - I don't think they are, sir, because I don't think that land is presently classified as continuously cropped land. I would venture to say that I would imagine that it is presently classified as summerfallow land because it appears and is in a summerfallow area.

UNDERDAL - But it will be.

SAIDBURY - No, that's not what we're saying here at all. We're saying that if it is classified as continuously cropped these are the values that would be applied to that land, and in most instances I would say that we're not going to be changing the classifications a great deal for this reappraisal cycle and that is part of the intent here, is that last cycle the major crux of the agricultural appraisal was in upgrading dry land farmland. As Dennis mentioned earlier, statewide production was increased about 6 bushels. We're not anticipating that to occur this cycle, and in fact not very much upgrading is going to occur anywhere in the state. We're still bound to reflect the proper classification of that land but that is determined basically on what are the accepted practices in that area, and if we're talking up in the hi-line there, basically that's a summerfallow area and basically that land is going to be classified as summerfallow farm land.

REP. LYBECK - For either one of the gentlemen from the Department of Revenue, as was mentioned earlier in testimony here, are you aware and is it a concern of yours that possibly by using these ratios that you're talking about, particularly on this irrigated land thing, you may be driving this completely out of production into being subdivided or possibly not being irrigated any longer because of the high cost?

GREG GROEPPER - Maybe I can speak to the first part of it.

the Committee sees fit to direct that we do it some other way, that's certainly within your jurisdiction. We're just trying to do the best with what we've got and we're struggling, quite frankly.

CHAIRMAN JACOBSEN thanked the representatives of the Department of Revenue, Dennis Burr, Mr. Tutvedt and all of those in attendance. He said he hoped some good would come of the hearing and that he thought a lot of information had been presented to the Committee. He said the Committee would be taking a look at the issue in the near future and closed the hearing.

Copies of the minutes are to be made available upon request.

The meeting was adjourned at 2:35 p.m.

  
REP. GLENN JACOBSEN, Chairman

Joann T. Gibson, Secretary

# DEPARTMENT OF REVENUE



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

December 28, 1982

Dear :

The attached material represents the results of the agricultural land valuation study. The methods and resulting values were determined upon receiving comments and suggestions from various agricultural organizations. It is easily noted that the level of values for the classes and grades of agricultural land have undergone considerable change since mailing of the initial proposals in August of this year.

The Department of Revenue proposes the attached method and resulting values as the basis for valuing agricultural land for the appraisal cycle beginning January 1, 1986. We feel that the best available data has gone into the development of these schedules, and that said schedules represent a uniform and equitable basis for valuing agricultural land.

An administrative rule hearing will be held in Helena through which additional public comment, data or arguments will be considered on this proposal.

We wish to express our thanks to the various agricultural organizations for their interest, comment and suggestions in this study to this point.

Sincerely,

*Leslie A. Saisbury*

Leslie A. Saisbury, Chief  
Agricultural/Timber Land Bureau  
Property Assessment Division

LAS:ttH

## THE INCOME APPROACH:

### A METHOD FOR UPDATING AGRICULTURAL LAND SCHEDULES

The following represents the method for updating the agricultural land schedules. The basic method was developed by the Research Bureau of the Department of Revenue for the Agricultural Bureau of the Property Assessment Division. The research was conducted in late 1981 and throughout 1982. This section provides a summary of the capitalized net income method for updating the agricultural land schedules.

#### PROBLEM

Montana statutes require the appraisal of agricultural land on productive capacity. The difficulty with this standard is that productive capacity cannot be observed in real estate markets. What can be observed are land values, which (to varying degrees) reflect values inflated by speculation. Therefore, another method must be used to arrive at the required land values.

#### METHOD

The method for updating agricultural land schedules is the income approach. Net income per acre is estimated for different types and uses of agricultural land. The net income estimates are then capitalized to estimate land values.

Estimates of net income per acre should reflect the predominate crops grown on the particular class of land. A subset of the crops grown in the state needs to be defined for each class of land. The following crops should be recognized for their influence on the income potential of various types of land.

<u>Land Type</u>	<u>Base Crop</u>	<u>Other predominate Crops</u>
Non-Irrigated Farm Land (F) (Summer Fallow)	Wheat	Barley
Non-Irrigated Farm Land (CC) (Continuously Cropped)	Wheat	Barley
Wild Hay (WH)	Hay	--
Tillable Irrigated (I) Maximum Rotation	Alfalfa	Wheat, Barley, Sugar Beets, Corn, Dry Beans
Medium Rotation	Alfalfa	Wheat, Barley, Corn
Minimum Rotation	Alfalfa	Wheat, Barley
Grazing Land (G)	Animal Unit	

The following steps are used to make the income approach operational.

#### 1. Conversion Factor

Since more than one crop must be considered for most types of land, it is necessary to estimate the yields of the different crops for the class of land. A conversion factor is estimated



for each type of land based on average crop yields for the land class. For example, average yields of summerfallow wheat are compared with average yields of summerfallow barley to estimate the conversion factor for non-irrigated farm lands. Similar factors are estimated for continuously cropped and irrigated lands for the crops contained in the previous table. These conversion factors allow the estimates of yields for the other predominate crops and, in essence, provide a weighting scheme for crop prices and production expenses when net income per acre is estimated.

2. Return Over Variable Cost (ROVC) - Estimate the net income on a unit of base crop production

The net income estimate is an average figure of the income produced by the land over a complete rotation of the crop cycle. The following formula is used to estimate net income per unit output.

$$NI/\text{unit} = \frac{\sum_{i=1}^n T_i I_i (P_i - AVC_i)}{N}$$

- Where:
- NI/unit is the net income estimate.
  - $I_i$  is the weight (average production) obtained from the conversion factor for the  $i^{\text{th}}$  crop.
  - $P_i$  is the average output price
  - $AVC_i$  is the average operating cost for the  $i^{\text{th}}$  crop.
  - $N$  is the number of years for a complete crop rotation. (for irrigated land only)
  - $T_i$  is the proportion of total crop land in crop  $i$  (for continuously cropped and fallow only)

3. Convert ROVC per unit estimates to ROVC per acre

Multiply net income per unit estimate by the midpoints of the base crop yields contained in the schedules.

4. Estimate per acre land values from net income

The following formula is used to accomplish this objective:

$$\text{Land Value Per Acre} = \frac{\text{ROVC Per Acre}}{\text{Overall Capitalization Rate}}$$

After the appropriate overall capitalization rate is chosen, the formula and net income estimates allow the derivation of the updated land values. The overall capitalization rate should include a discount rate component and an effective tax rate component in this formulation.

DATA

The best data for use are random samples of actual farm/ranch budgets. These data would require massive amounts of primary data collection and would be both time consuming and expensive.

Given these limitations, other data sources must be used. Rather detailed information on yields, prices and expenses are required. These data were obtained from the following sources:

1. Yield data -- Montana Agricultural Statistics.
2. Price data -- Montana Agricultural Statistics and "The Annual Summary of Crop Production." (both prepared by the Montana Crop and Livestock Reporting Service.)
3. Expense data -- "Montana-Wyoming Farm Enterprise Cost and Return Data Analysis" (prepared by the Soil Conservation Service) and miscellaneous "Farm Enterprise Cost and Return" studies (prepared by the Montana Extension Service).
4. Additional income and expense data was acquired from Dr. John Lacey, Extension Range Specialist, Montana State University. This data is specific and was used in large part in determining the grazing values established.

Data used are five-year averages. Five-year averages were chosen to smooth irregularities in farm income resulting from random variations in farm production and prices.

APPLICATIONS

NON-IRRIGATED FARM LAND

Conversion Factor

SUMMERFALLOW YIELDS  
(Average Bushels/Acre)

<u>Year</u>	<u>Wheat*</u>	<u>Barley</u>
1977	25.92	32.9
1978	30.22	39.7
1979	22.51	32.5
1980	22.94	38.5
1981	29.44	39.4
Average	26.21	36.60

\*Average yields for winter, durum and spring wheats

Source: Pg. 28, Montana Agricultural Statistics, Vol. XIX

Barley yields on summerfallow average 39.64% greater than wheat yields.

Return Over Variable Costs Per Bushel Wheat

COMMODITY PRICES

<u>Year</u>	<u>All Wheat</u>	<u>Barley</u>
1977	\$2.36	\$1.68
1978	2.75	1.70
1979	3.63	2.15
1980	4.14	2.83
1981	3.69	2.35
Average	3.31	2.14

Source: Pg. 28-29, Montana Agricultural Statistics, Vol XIX

From 1977 through 1981 85.9 percent of harvested summerfallow acres were in wheat.

$$\text{ROVC/Bu. Wheat} = .859 (3.31 - 2.2510) + 1.3964 (.141) (2.14 - 1.687) = \underline{\underline{\$.9989}}$$

ROVC/Acre And Land Values

NON-IRRIGATED FARM LAND (Summer Fallow)

Grade	Bu. Wheat/Acre	ROVC/Producing Acre	ROVC/Acre * Net of Fallow Costs	Average** ROVC/Acre	Capitalized At 10.5%
1A8	40 and over	\$40.9549	\$21.8259	\$10.9129	\$103.93
1A7	38-39	38.9571	19.8281	9.9140	94.42
1A6	36-37	36.9593	17.8303	8.9151	84.91
1A5	34-35	34.9615	15.8325	7.9162	75.39
1A4	32-33	32.9637	13.8347	6.9173	65.88
1A3	30-31	30.9659	11.8369	5.9184	56.37
1A2	28-29	28.9681	9.8391	4.9195	46.85
1A1	26-27	26.9703	7.8413	3.9206	37.34
1A	24-25	24.9725	5.8435	2.9217	27.83
1B	22-23	22.9747	3.8457	1.9228	18.31
2A	20-21	20.9769	1.8479	.9239	8.80
2B	18-19	18.9791	(0.1499)		7.92***
2C	16-17	16.9813	(2.1477)		7.05***
3A	14-15	14.9835	(4.1455)		6.17***
3B	12-13	12.9857	(6.1433)		5.30***
4A	10-11	10.9879	(8.1411)		4.42***
4B	8-9	8.9901	(10.1389)		3.55***
5	Less than 8	6.9923	(12.1367)		2.67***

\* Fallow costs equal \$19.129/Acre

\*\* Represents value per tillable acre.

\*\*\* Production grades with no net income are valued by applying G6 grazing value to F5 and taking the difference between this 2.67 and the \$8.80 for F2A and dividing it evenly for the grades in between. This places the values for these productive levels in conformity with grazing values established.

NON-IRRIGATED CONTINUOUSLY CROPPED FARM LAND

Conversion Factor

Continuously Cropped Yields  
(Average Bushels/Acre)

Year	Wheat	Barley
1977	17.93	28.9
1978	23.84	34.1
1979	17.68	30.0
1980	19.38	34.9
1981	20.61	38.3
Average	19.89	33.24

Source: Pg. 28, Montana Agricultural Statistics, Vol. XIX

Barley yields average 67.1% greater than wheat yields.

ROVC/Bushel

From 1977 through 1981 an average of 49.7% of harvested continuously cropped lands were in wheat production.

$$\text{ROVC/Bushel} = .497 (3.31 - 2.2510) + .503 (1.671) (2.14 - 1.687) = \underline{\$0.9071}$$

ROVC/Acre and Land Values

NON-IRRIGATED CONTINUOUSLY CROPPED FARM LAND

<u>Grade</u>	<u>Bu. Wheat/Acre</u>	<u>ROVC/Acre From 3 Crops</u>	<u>ROVC/Acre/Year Net of Fallow Costs*</u>	<u>Capitalized At 10.5%</u>
1A4	44 & over	\$122.4585	\$25.8324	\$246.02
1A3	42-43	117.0159	24.4717	233.06
1A2	40-41	111.5733	23.1111	220.11
1A1	38-39	106.1307	21.7504	207.15
1A	36-37	100.6881	20.3898	194.19
1	34-35	95.2455	19.0291	181.23
2	32-33	89.8029	17.6685	168.27
3	30-31	84.3603	16.3078	155.31
4	28-29	78.9177	14.9472	142.35
5	26-27	73.4751	13.5865	129.40
6	24-25	68.0325	12.2259	116.44
7	22-23	62.5899	10.8652	103.48
8	20-21	57.1473	9.5046	90.52
9	18-19	51.7047	8.1439	77.56
10	16-17	46.2621	6.7833	64.60
11	14-15	40.8195	5.4226	51.64
12	12-13	35.3769	4.0620	38.69
13	10-11	29.9343	2.7013	25.73
14	Less Than 10	24.4917	1.3407	12.77

\*Fallow Costs of \$19.129 subtracted and divided by 4.

## GRAZING LAND

The estimates of the value of grazing lands are based extensively on data obtained from Dr. John Lacey, Extension Range Specialist, Montana State University. The data compiled by Dr. Lacey offers detailed statistics on rancing operations which could not be secured from other sources.

## METHOD

The information obtained from Dr. Lacey represents the largest source of income and expense data found. This data represents income and expense obtained in 1979 and indexed up through 1981. Changes in the annual beef prices are made by forming an index of cattle prices with 1979 as the base. Similarly, expense changes are approximated by applying indexes for expenditure items as taken from Agricultural Prices, Annual Summary 1981, Crop Reporting Board, Statistical Reporting Service, U.S.D.A., pages 17-25. The following table presents the index for beef prices. These indexes are applied to the 1979 base year data compiled by Dr. Lacey.

### BEEF PRICE INDEX

<u>Year</u>	<u>Cash Receipts*</u> <u>From Cattle &amp; Calves</u>	<u>Marketing*</u> <u>(1000 lbs)</u>	<u>Average Price</u> <u>1000 lbs</u>	<u>Index Value</u>
1977	\$412,820,000	1,169,350	\$353.0337	0.4873
1978	582,260,000	1,051,010	554.0004	0.7647
1979	700,097,000	9,663,380	724.4531	1.0000
1980	640,507,000	1,034,103	619.368	0.8549
1981	506,095,000	933,340	542.241	0.7485

\*Source: Pg. 68, Montana Agricultural Statistics, Vol. XIX

GROSS RECEIPTS AND VARIABLE COSTS

<u>Year</u>	<u>Gross Receipts<sup>1</sup> Per Animal Unit</u>	<u>Variable Costs<sup>2</sup> Per Animal Unit</u>
1977	\$123.60	\$126.23
1978	193.96	130.17
* 1979	253.64	148.02
1980	216.84	169.42
1981	<u>189.85</u>	<u>185.09</u>
Average	\$195.58	\$151.79

Average ROVC = \$ 43.79/A.U.

\* Base year 1979; <sup>1</sup>Gross receipts for the years preceding and following 1979 are determined by using the Beef Price Index cited earlier; <sup>2</sup>Variable cost figures are determined for the years prior to and following 1979 by using indexes found in Agricultural Prices, Annual Summary 1981, Crop Reporting Board, Statistical Reporting Service, U.S.D.A., pages 17-25.

Return Over Variable Cost/Animal Unit:

\$ 195.58 - \$ 151.79 = \$ 43.79

Return Over Variable Cost/Acre and Land Values:

<u>Grade</u>	<u>Grazing Land Acres/Animal Unit Midpoint</u>	<u>ROVC Per Acre</u>	<u>Capitalized At 10.5%</u>
1A2	3.48	\$12.5833	\$119.84
1A1	4.80	9.1229	86.88
1A+	6.60	6.6348	63.19
1A	9.60	4.5615	43.44
1B	17.40	2.5167	23.97
2A	24.00	1.8246	17.38
2B	29.40	1.4895	14.19
3	39.00	1.1228	10.69
4	55.80	0.7848	7.47
5	93.00	0.4709	4.48
6	156.00	0.2807	2.67

The values presented in the previous table are based on cattle. A useful extension would be to incorporate sheep into the analysis. From 1975 through 1979, sheep production averaged 2.52% of cattle production. The relative size of the sheep industry suggests that the values presented in the previous table would not change significantly with the introduction of sheep.

WILD HAY LAND

Return Over Variable Cost/Unit:

$$\text{\$ } 50.10 - \text{\$ } 40.592 = \text{\$ } 9.508$$

Return over Variable Cost/Acre and Land Values:

<u>Grade</u>	<u>Tons of Hay/Acre</u>	<u>ROVC/Acre</u>	<u>Capitalized At 10.5%</u>
1	3.0 & Over	\$30.901	\$294.30
2	2.5-2.9	26.147	249.02
3	2.0-2.4	21.393	203.74
4	1.5-1.9	16.639	158.47
5	1.0-1.4	11.885	113.19
6	.5- .9	7.131	67.91
7	Less than .5	2.377	45.64



TILLABLE IRRIGATED LANDS

Class I (Maximum Rotation)

Cropping Sequences:

1. Sugar Beets - Corn - Spring Wheat - 3 years Alfalfa - Barley
2. Beans - Spring Wheat - 3 years Alfalfa - Barley

Source: Howard Bowman, Agronomist, Mt. Cooperative Extension Service

Conversion Factor:

1 Ton Alfalfa = 5.329 cwt Beans = 6.508 Tons Beets = 24.495 bu. Corn  
= 16.547 Bu. Spring Wheat = 20.326 Bu. Barley

Return over Variable Cost/Ton Alfalfa:

Cropping Sequence #1

ROVC/Ton = [3(53.5 - 40.592) + 6.508 (35.67 - 25.753) + 24.495(2.76 - 2.454)  
+ 16.547 (3.31 - 2.897) + 20.326 (2.14 - 2.030)] ÷ 7 = \$17.118

Cropping Sequence #2

ROVC/Ton = [3(53.5 - 40.592) + 5.329 (21.06 - 13.598) + 16.547 (3.31 - 2.897)  
+ 20.326 (2.14 - 2.030)] ÷ 6 = \$14.593

Average Over Both Sequences - \$15.855

Return Over Variable Cost/Acre and Land Values

Class I (Maximum Rotation)

<u>Grade</u>	<u>Tons Alfalfa/Acre</u>	<u>ROVC/Acre</u>	<u>Capitalized At 10.5%</u>
1A	4.5 +	\$75.3112	\$717.25
1B	4.0-4.4	67.3837	641.75
2	3.5-3.9	59.4562	566.25
3	3.0-3.4	51.5287	490.75
4	2.5-2.9	43.6012	415.25
5	2.0-2.4	35.6737	339.75
6	1.5-1.9	27.7462	264.25
7	1.0-1.4	19.8187	188.75
8	Less than 1.0	11.8912	113.25

Class II (Medium Rotation)

Cropping Sequence:

Corn - Barley - 3 Years Alfalfa - Spring Wheat

Return Over Variable Cost/Ton Alfalfa:

$$\text{ROVC/Ton} = [3(53.5 - 40.592) + 24.495 (2.76 - 2.454) + 20.326 (2.14 - 2.030) + 16.547 (3.31 - 2.897)] \div 6 = \underline{\underline{\$9.215}}$$

Return Over Variable Cost/Acre and Land Values

Class II (Medium Rotation)

<u>Grade</u>	<u>Tons Alfalfa/Acre</u>	<u>ROVC/Acre</u>	<u>Capitalized At 10.5%</u>
1A	4.5 +	\$43.7712	\$416.87
1B	4.0-4.4	39.1637	372.99
2	3.5-3.9	34.5562	329.11
3	3.0-3.4	29.9487	285.23
4	2.5-2.9	25.3412	241.34
5	2.0-2.4	20.7337	197.41
6	1.5-1.9	16.1262	153.58
7	1.0-1.4	11.5187	109.70
8	Less than 1.0	6.9112	65.82

Class III (Minimum Rotation)

Cropping Sequence:

Barley - 3 years Alfalfa - Spring Wheat - Summer Fallow

Return Over Variable Cost/Ton Alfalfa With One-Year Summer Fallow:

$$\text{ROVC/Acre} = [3(53.5 - 40.592) + 20.326 (2.14 - 2.030) + 16.547 (3.31 - 2.897) - 19.129] \div 6 = \underline{\underline{\$4.777}}$$

Return Over Variable Cost/Acre and Land Values

Class III (Minimum Rotation)

<u>Grade</u>	<u>Tons Alfalfa/Acre</u>	<u>ROVC/Acre</u>	<u>Capitalized At 10.5%</u>
1A	4.5 +	\$22.6907	\$216.10
1B	4.0-4.4	20.3022	193.35
2	3.5-3.9	17.9137	170.61
3	3.0-3.4	15.5252	147.86
4	2.5-2.9	13.1367	125.11
5	2.0-2.4	10.7482	102.36
6	1.5-1.9	8.3597	79.62
7	1.0-1.4	5.9712	56.87
8	Less than 1.0	3.5827	34.12

YEARLY YIELD DATA

<u>CROP</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Average</u>
<u>Summer Fallow</u>						
Wheat (bu./acre)	25.92	30.22	22.51	22.94	29.44	26.21
Barley (bu./acre)	32.9	39.7	32.5	38.5	39.4	36.60
<u>Continuously Cropped</u>						
Wheat (bu./acre)	17.93	23.84	17.68	19.38	20.61	19.89
Barley (bu./acre)	28.9	34.1	30.0	34.9	38.3	33.24
<u>Irrigated</u>						
Spring Wheat (bu/acre)	45.4	49.8	48.9	54.9	55.0	50.8
Barley (bu./acre)	59.0	64.0	63.0	61.0	65.0	62.4
Corn (bu./acre)	68.0	72.0	77.0	74.0	85.0	75.2
Dry Beans (cwt./acre)	16.0	15.0	18.0	16.0	16.8	16.36
Alfalfa (tons/acre)	2.75	2.86	3.13	3.14	3.45	3.07
Sugar Beets (tons/acre)	19.9	19.8	19.1	20.3	20.8	19.98

Source: Montana Agricultural Statistics, Vol. XIX

OPERATING COST/UNIT

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980*</u>	<u>1981</u>	<u>Average</u>
<u>Irrigated</u>						
Feed Barley (\$/bu.)	1.655	1.781	1.982	2.25	2.483	2.030
Malt Barley (\$/bu.)	2.052	2.209	2.458	2.79	3.079	2.518
Spring Wheat (\$/bu.)	2.361	2.541	2.828	3.21	3.543	2.897
Winter Wheat (\$/bu.)	2.280	2.454	2.731	3.10	3.421	2.797
Alfalfa (\$/Ton)	32.593	35.088	39.041	44.32	48.916	40.592
Corn for Grain (\$/bu.)	2.000	2.153	2.396	2.72	3.002	2.454
Sugar Beets (\$/Ton)	20.988	22.595	25.141	28.54	31.500	25.753
Dry Beans (\$/cwt.)	11.082	11.931	13.275	15.07	16.633	13.598
<u>Dry Land</u>						
Fallow/Acre (\$/acre)	15.590	16.784	18.675	21.20	23.398	19.129
Spring Wheat (\$/bu.)	1.927	2.074	2.308	2.62	2.892	2.364
Barley (\$/bu.)	1.375	1.480	1.647	1.87	2.064	1.687
Winter Wheat (\$/bu.)	1.780	1.916	2.132	2.42	2.671	2.184

The years 1977, 1978, 1979 and 1981 are derived by use of Consumer Price Index applied to base data for 1980.

\* Base data from Montana-Wyoming Farm Enterprise Cost and Return Data Analysis, p.5.

COMMODITY PRICES (Per Unit Production)

<u>Year</u>	<u>Dry Beans</u>	<u>Beets</u>	<u>Corn</u>	<u>(All Hay) Alfalfa</u>	<u>All Wheat</u>	<u>Barley</u>
1981	\$20.00	*	\$3.30	\$50.50	\$3.69	\$2.35
1980	25.00	\$51.40	3.60	62.50	4.14	2.83
1979	25.00	32.30	2.40	54.50	3.63	2.15
1978	16.50	29.90	2.25	44.00	2.75	1.70
1977	<u>18.80</u>	<u>29.10</u>	<u>2.27</u>	<u>56.00</u>	<u>2.36</u>	<u>1.68</u>
Average	\$21.06	\$35.67	\$2.76	\$53.50	\$3.31	\$2.14

\* Data not available at this time

Source: Montana Agricultural Statistics, Vol. XIX (Prepared by the Montana Crop and Livestock Reporting Service.)

Prices All Other Hay - For Wild Hay/Ton

<u>Month</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Jan	*	\$ 54.00	\$ 42.50	\$ 51.00	\$ 60.00
Feb	*	57.50	43.00	49.00	55.00
Mar	*	59.00	43.00	50.00	55.00
Apr	*	56.50	43.50	52.00	50.00
May	*	52.00	41.50	50.00	48.00
June	*	46.50	45.00	55.00	46.00
July	54.00	43.00	45.50	60.00	47.00
Aug	57.50	40.50	49.50	60.00	47.00
Sept	53.50	39.50	50.00	60.00	46.00
Oct	52.50	37.50	50.00	62.00	50.00
Nov	52.00	37.00	50.00	63.00	50.00
Dec	51.50	39.50	52.50	60.00	40.00

4½ year ave. = \$ 50.10

From Montana Crop & Livestock Reporter, Monthly Agricultural Prices 1977-1981.

\* There are no prices for all other hay listed prior to July 1977.

The adjustment in taxable percentage needed to generate approximately the same total statewide taxable value on agricultural land would be from the present 30% level to 14%.

A table showing the relationship between the average value of each class of land in this proposal as compared to the average market value of Montana land presented in the Montana Crop and Livestock Reporter dated April 15, 1981 is shown for purposes of comparison.

	Average Proposed Value	Market * Value Feb 1, 1981	Proposed as % of Market	Proposed ** Indicated Taxable %
Irrigated Farm Land	\$ 260.57	\$ 1155	22.6 %	
Dry Cropland	84.21	375	22.5	14%
Non-Irrigated Grazing	35.84	175	20.5	

\* These values from Montana Crop and Livestock Reporter, April 15 1981. These values include improvements.

\*\* The percentage figure here represents the indicated rate that would generate approximately the same tax base as is presently generated by applying the 30% taxable rate against present values.

### Capitalization

The basic formula,  $V = \frac{I}{R}$  is commonly used to estimate values where,

V = Land Value

I = Net Income

R = Capitalization Rate (appropriate discount rate + effective tax rate)

Use of this formula in valuing agricultural land assumes that Net Income remains constant through time. However, we know that net income on farm properties has increased through time (an average of 4.25% per year since WWII).

To correct this assumption, the following formula is used:

$$V = \frac{1+g}{r-g} \text{ N. I. , where}$$

V = Land Value  
g = Rate of growth of net income into the future (4.25%)  
r = Discount Rate, and  
N.I. = Net Income

Use of this particular formula also produces land values more in line with what is felt to be occurring in the market place. Current marketing conditions would tend to alter this fact, but it is felt by most people that the current downward trend is a short run situation.

The formula was taken from an article published in the American Journal of Agricultural Economics, Vol. 61 #5, December 1979 by Emanuel Melichar. Dr. Richard McConnen of the Agricultural Economics Department of Montana State University suggested this formula would be more appropriate in determining updated land values.

### Discount Rate

Derivation of the discount rate by use of this formula is as follows:

$$V = \frac{1+g}{r-g} \text{ N.I.} = \frac{1 + .0425}{.0962 - .0425} \text{ N.I.}$$

(9.62% represents the five year 1977-1981 weighted average of Federal Land Bank interest rates)

$$= \frac{1.0425}{.0537} \text{ N.I. which}$$
$$= (19.413)(\text{N.I.}) \text{ or inversely}$$

$$\frac{1}{19.413} = .052, \text{ then}$$

$$\frac{\text{N.I.}}{.052} = \text{Capitalized Net Income}$$

$$\text{Discount Rate} = 5.2\%$$

### Effective Tax Rate

Where property taxes are not deducted as a specific operating expense the effective tax rate is determined as a component in an overall capitalization rate. Effective tax rate is determined by multiplying the statutory taxable percentage by the statewide average rural mill levy.

$$\text{Effective Tax Rate} = 30\% \times .175 \text{ where}$$

30 % = Present taxable percentage agricultural land  
.175 = Approximate average rural mill rate for Montana

$$\text{Effective Tax Rate} = 5.3 \%$$

### Overall Capitalization Rate

The overall capitalization rate is comprised of the sum of the discount and effective tax rates determined previously.

$$\begin{aligned} \text{Overall Capitalization Rate} &= \text{Discount Rate} + \text{Effective Tax Rate} \\ &= 5.2 \% + 5.3 \% \\ &= 10.5 \% \end{aligned}$$

<u>Class</u>	<u>Ag Values</u>		<u>Average Value Currently Proposed</u>
	<u>1963 Average Value</u>	<u>Original Proposal</u>	
Nonirrigated Farmland (Summerfallow)	\$34.59	\$ 28.25	\$ 36.51
Nonirrigated Farmland (Continuous Crop)	56.26	48.03	129.40
Grazing	18.12	17.68	35.84
Wild Hay	32.34	84.90	102.83
Tillable Irrigated *	--	--	--
Maximum	40.64	162.39	415.25
Medium	34.57	122.84	241.34
Minimum	30.95	101.87	125.11

\*1963  
Irrigated Land  
Values before  
60% Reduction and  
Water Cost Adjustments

Maximum	\$113.26
Medium	97.94
Minimum	89.33

#### Change in Agricultural Values

+92% Over All Ag. Land

This is based on a weighting of the percentages of each agricultural class found in the state applied to the average percent change in value of each class as proposed.



**CLASSES, GRADES, AND VALUES FOR MONTANA AGRICULTURAL LANDS AS APPROVED  
BY THE STATE DEPARTMENT OF REVENUE**

**NON-IRRIGATED FARM LAND (F)**

<u>Grade</u>	<u>Bu. Wheat Per Acre On Summer Fallow</u>	<u>Assessed Value Per Acre</u>
1A8	40 & over	81.08
1A7	38 - 39	74.51
1A6	36 - 37	67.94
1A5	34 - 35	61.37
1A4	32 - 33	54.80
1A3	30 - 31	48.60
1A2	28 - 29	42.79
1A1	26 - 27	37.31
1A	24 - 25	32.22
1B	22 - 23	27.50
2A	20 - 21	23.15
2B	18 - 19	19.17
2C	16 - 17	15.56
3A	14 - 15	12.31
3B	12 - 13	9.44
4A	10 - 11	6.94
4B	8 - 9	4.81
5	Under 8	3.06

**WILD HAY LAND (WH)**

<u>Grade</u>	<u>Tons of Hay Per Acre</u>	<u>Assessed Value Per Acre</u>
1	3.0 & over	67.60
2	2.5 - 2.9	53.03
3	2.0 - 2.4	41.38
4	1.5 - 1.9	29.43
5	1.0 - 1.4	19.38
6	.5 - .9	10.05
7	Less than .5	5.54

**GRAZING LAND (G)**

<u>Grade</u>	<u>Acres Per 1000# Steer 10 Mos.</u>	<u>Assessed Value Per Acre</u>
1A2	Under 3	71.69
1A1	3 - 5	44.18
1A+	5.1 - 5.9	31.27
1A	6 - 10	20.51
1B	11 - 18	10.53
2A	19 - 21	7.17
2B	22 - 27	5.42
3	28 - 37	3.72
4	38 - 55	2.52
5	56 - 99	1.47
6	100 or over	.82

**NON-IRRIGATED CONTINUOUSLY CROPPED  
FARM LAND (CC)**

<u>Grade</u>	<u>Bu. of Wheat Per Acre Each Year</u>	<u>Assessed Value Per Acre</u>
1A4	44 & over	125.71
1A3	42 - 43	116.94
1A2	40 - 41	108.17
1A1	38 - 39	99.40
1A	36 - 37	90.63
1	34 - 35	81.86
2	32 - 33	73.09
3	30 - 31	64.81
4	28 - 29	57.05
5	26 - 27	49.75
6	24 - 25	42.96
7	22 - 23	36.67
8	20 - 21	30.87
9	18 - 19	25.56
10	16 - 17	20.75
11	14 - 15	16.41
12	12 - 13	12.59
13	10 - 11	9.25
14	Less than 10	6.41

## TILLABLE IRRIGATED LANDS (I)

### CLASS 1 (Maximum Rotation) Assessed Value Per Acre by Water Cost Classes

Grade	Tons Alfalfa Per Acre	Under \$1.50	\$1.50 2.49	\$2.50 3.49	\$3.50 4.49	\$4.50 5.49	\$5.50 6.49	\$6.50 7.49	\$7.50 & Over
1A	4.5+	110.40	103.74	97.07	90.40	83.74	77.07	70.40	63.74
1B	4.0-4.4	94.70	88.98	83.26	77.55	71.83	66.11	60.39	54.68
2	3.5-3.9	78.70	73.96	69.20	64.45	59.70	54.94	50.19	45.44
3	3.0-3.4	63.70	59.85	56.00	52.16	48.31	44.47	40.62	36.78
4	2.5-2.9	48.53	45.60	42.67	39.74	36.81	33.88	30.95	28.02
5	2.0-2.4	31.92	30.00	28.07	26.14	24.21	22.29	20.36	18.43
6	1.5-1.9	19.86	18.67	17.47	16.27	15.07	13.87	12.67	11.47
7	1.0-1.4	11.37	10.69	10.00	9.31	8.63	7.94	7.25	6.57
8	-1.0	4.55	4.28	4.00	3.72	3.45	3.18	2.90	2.63

### CLASS 2 (Medium Rotation) Assessed Value Per Acre by Water Cost Classes

Grade	Tons Alfalfa Per Acre	Under \$1.50	\$1.50 2.49	\$2.50 3.49	\$3.50 4.49	\$4.50 5.49	\$5.50 6.49	\$6.50 7.49	\$7.50 & Over
1A	4.5+	97.26	90.60	83.93	77.27	70.60	63.94	57.27	50.60
1B	4.0-4.4	81.72	76.12	70.52	64.92	59.32	53.72	48.12	42.52
2	3.5-3.9	67.27	62.66	58.05	53.44	48.83	44.22	39.61	35.00
3	3.0-3.4	53.90	50.21	46.51	42.82	39.12	35.43	31.73	28.04
4	2.5-2.9	41.60	38.76	35.90	33.05	30.20	27.35	24.49	21.65
5	2.0-2.4	30.39	28.31	26.22	24.14	22.06	19.98	17.89	15.81
6	1.5-1.9	19.86	18.67	17.47	16.27	15.07	13.87	12.67	11.47
7	1.0-1.4	11.37	10.69	10.00	9.31	8.63	7.94	7.25	6.57
8	-1.0	4.55	4.28	4.00	3.72	3.45	3.18	2.90	2.63

### CLASS 3 (Minimum Rotation) Assessed Value Per Acre by Water Cost Classes

Grade	Tons Alfalfa Per Acre	Under \$1.50	\$1.50 2.49	\$2.50 3.49	\$3.50 4.49	\$4.50 5.49	\$5.50 6.49	\$6.50 7.49	\$7.50 & Over
1A	4.5+	86.26	79.60	72.93	66.27	59.60	52.94	46.27	39.60
1B	4.0-4.4	73.84	68.14	62.43	56.72	51.02	45.31	39.60	33.90
2	3.5-3.9	62.01	57.22	52.43	47.64	42.84	38.05	33.26	28.47
3	3.0-3.4	50.79	46.86	42.94	39.02	35.09	31.16	27.24	23.32
4	2.5-2.9	40.15	37.05	33.95	30.85	27.74	24.64	21.54	18.43
5	2.0-2.4	30.11	27.78	25.46	23.13	20.80	18.48	16.15	13.82
6	1.5-1.9	19.86	18.67	17.47	16.27	15.07	13.87	12.67	11.47
7	1.0-1.4	11.37	10.69	10.00	9.31	8.63	7.94	7.25	6.57
8	-1.0	4.55	4.28	4.00	3.72	3.45	3.18	2.90	2.63

findings shall be final subject to the right of review in the proper court or courts.

History: En. Sec. 5, Ch. 191, L. 1957; amd. Sec. 17, Ch. 405, L. 1973; R.C.M. 1947, 84-429.11; amd. Sec. 3, Ch. 710, L. 1979.

**15-7-103. Classification and appraisal — general and uniform methods.** (1) It is the duty of the department of revenue to implement the provisions of 15-7-101 through 15-7-103 by providing:

(a) for a general and uniform method of classifying lands in the state for the purpose of securing an equitable and uniform basis of assessment of said lands for taxation purposes;

(b) for a general and uniform method of appraising city and town lots;

(c) for a general and uniform method of appraising rural and urban improvements;

(d) for a general and uniform method of appraising timberlands.

(2) All lands shall be classified according to their use or uses and graded within each class according to soil and productive capacity. In such classification work, use shall be made of soil surveys and maps and all other pertinent available information.

(3) All lands must be classified by 40-acre tracts or fractional lots.

(4) All agricultural lands must be classified and appraised as agricultural lands without regard to the best and highest value use of adjacent or neighboring lands.

(5) In any periodic revaluation of taxable property completed under the provisions of 15-7-111 after January 1, 1979, all property classified in [15-6-112] must be appraised on its market value in the same year. The department must publish a rule specifying the year used in the appraisal.

History: En. Sec. 6, Ch. 191, L. 1957; amd. Sec. 3, Ch. 512, L. 1973; amd. Sec. 5, Ch. 516, L. 1973; R.C.M. 1947, 84-429.12; amd. Sec. 1, Ch. 710, L. 1979.

**15-7-104. Work done under prior law.** Any and all work performed or caused to be performed by the boards of county commissioners of the various counties for the classification of lands and appraisal of city and town lots and rural and urban improvements under the provisions of Chapter 198, Laws of 1955, is hereby declared to be valid and of the same effect as if performed under the provisions of present law.

History: En. Sec. 7, Ch. 191, L. 1957; R.C.M. 1947, 84-429.13.

**15-7-105. Purpose.** In order to produce more uniform appraisal of property throughout the state by encouraging technical training in the principles, methods, and techniques of appraising property and promoting a higher level of professionalism among appraisers, the legislature hereby establishes a system of instruction, examination, and certification for all appraisers.

History: En. Sec. 1, Ch. 602, L. 1979.

**15-7-106. Courses of instruction, examination, and certification.** (1) The department of revenue shall offer courses in the principles, methods, and techniques of appraising for property tax purposes property in three fields:

(a) residential property;

*Severability:* Section 5, Ch. 201, L. 1981, was a severability section.

*Effective Date:* Section 7, Ch. 201, L. 1981, provided: "This act is effective on passage and approval." Approved March 31, 1981.

**15-7-201. Legislative intent as to agricultural property.** Since the market value of many farm properties is based upon speculative purchases which do not reflect the productive capability of farms, it is the legislative intent that bona fide farm properties shall be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

**History:** En. Sec. 1, Ch. 512, L. 1973; R.C.M. 1947, 84-437.1.

**15-7-202. Eligibility of land for valuation as agricultural.** (1) Land which is actively devoted to agricultural use shall be eligible for valuation, assessment, and taxation as herein provided each year it meets any of the following qualifications:

(a) the area of such land is not less than 5 contiguous acres when measured in accordance with provisions of 15-7-206, and it has been actively devoted to agriculture during the last growing season, and it continues to be actively devoted to agricultural use, which means:

(i) it is used to produce field crops including but not limited to grains, feed crops, fruits, vegetables; or

(ii) it is used for grazing; or

(iii) it is used for growing timber, or

(iv) it is in a cropland retirement program; or

(b) it agriculturally produces for sale or home consumption the equivalent of 15% or more of the owners' annual gross income regardless of the number of contiguous acres in the ownership; or

(c) it is used to raise animals in confined areas for the production of food or fiber, including but not limited to livestock, feedlots, dairies, fish hatcheries, and poultry farms.

(2) Land shall not be classified or valued as agricultural if it is subdivided with stated restrictions prohibiting its use for agricultural purposes.

(3) The grazing on land by a horse or other animals kept as a hobby and not as a part of a bona fide agricultural enterprise shall not be considered a bona fide agricultural operation.

**History:** En. Sec. 4, Ch. 512, L. 1973; amd. Sec. 2, Ch. 56, L. 1974; amd. Sec. 1, Ch. 457, L. 1975; R.C.M. 1947, 84-437.2; amd. Sec. 1, Ch. 608, L. 1979; amd. Sec. 16, Ch. 693, L. 1979.

**15-7-203. Agricultural uses only considered in valuation.** In valuing land as agricultural, the department of revenue shall consider only those indicia of value which such land has for agricultural use.

**History:** En. Sec. 5, Ch. 512, L. 1973; amd. Sec. 3, Ch. 56, L. 1974; R.C.M. 1947, 84-437.3.

**15-7-204. Repealed.** Sec. 6, Ch. 201, L. 1981.

**History:** En. Sec. 6, Ch. 512, L. 1973; R.C.M. 1947, 84-437.4.

#### **Compiler's Comments**

*Title of 1981 Act Repealing Rollback Tax:* The title to Ch. 201, L. 1981 (SB 183), read: "An act repealing the rollback tax on agricultural land; declaring certain taxes discharged; amending sections 15-7-207, 15-7-209, and

15-7-210, MCA; repealing sections 15-7-204, 15-7-205, 15-7-211, 15-7-214, and 15-7-215, MCA; and providing an immediate effective date."

*Oversight Committee Report:* Although Ch. 201, L. 1981 (SB 183), was not introduced at the

VISITOR'S REGISTER

HOUSE Agriculture

COMMITTEE

BILL Land Classifications

DATE 2-2-83

SPONSOR Dept of Revenue

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
A.M. Kelly	Helena	Mont. Water Development		
PAUL TURVEST	KALISPELL	TURVEST BROS		
Charles Lake	Ronan	Lake Bros		
George Schly	Kalispell	Phat head from Montana		
Vernon Johnson	"	Farmer		
Wale N. Davis	Bozeman	APPA		
Paul C. Cillib	Bozeman	APA		
Kurt Lewis	Bozeman	APA		
Russ Simp	BOZEMAN	APA		
Rob. Lewis	Bozeman	APA		
Bill Black	Helena Gateway	APA TEA (Tax Payers Education and)		
W.A. Williams	Bozeman	APA		
Dennis Burr	Clancy	MONTAX		
Teddy Thompson	Big Timber	Rancher		
BERNARD CAWORTH	MILES CITY	YELLOWSTONE NEWS PAPER		
VERNON WESTLAKE	BOZEMAN, MT	A.P.A.		
TIM DURGAN	LIVINGSTON, MT	A.P.A.-PCLA		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE Agriculture

COMMITTEE

BILL Land Classification

DATE 2-2-83

SPONSOR Dept. of Revenue

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
<i>Agnes Tuttle</i>	<i>Keenewick</i>			
<i>Phelma Johnson</i>	<i>"</i>			
<i>Will Brooke</i>	<i>Helena</i>	<i>MT Grazing Districts</i>		
<i>Roy Row</i>	<i>Livingston</i>			

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

WITNESS STATEMENT

Name PAUL R. TATVEDT Committee On Ag LAND VAL. STUDY  
Address 3060 W. Valley - Kalispell Date 2/2/83  
Representing TATVEDT LIVESTOCK Support \_\_\_\_\_  
Bill No. \_\_\_\_\_ Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. THERE ISN'T ANY ROOM LEFT IN AGRIC. LAND FOR INCREASED TAXES - WE JUST CAN'T GENERATE THAT ADDITIONAL CASH FLOW
2. IRRIGATED LAND IN PROPORTION TO DRY LAND IS NOT A FAIR RATE OF INCREASE AS PRESENTED BY SCHIE -
3. IRRIGATION INCREASE IN LAND USE WILL GO BACKWARD AND LESS TOTAL DOLLAR INCOME IN THE STATE WILL DECREASE.
4. MUCH LAND WEST OF THE DIVIDE WILL BE FORSAKE IN 10 & 20 ACRE PLOTS FOR IT WILL NO LONGER BE FEASIBLE TO FARM. THIS IS VERY NEGATIVE TO LAND USE AND TOTAL AGRICULTURE INCOME.
5. IT TAKES APPROX \$150.00 TO 200.00 AN ACRE TO TURN DRYLAND TO IRRIGATED GROUND YET THEY SHOW INCREASE IN VALUE FROM \$375 TO \$1155.00 BETWEEN THE TWO. (THIS FAIR?)

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

6. YOU MAY HAVE TO CONSIDER PERSONAL PROPERTY TAX ON FORM CS-34 IRRIGATION SYSTEMS OR A STATE SALES TAX WHICH IS HARD TO ACCEPT.

The following is the schedule for the classification and valuation of grazing land.

OLD			NEW		
Acres for 10-month Grazing Season per 1000 lb. Steer Equivalent	Grade	Land Value Per Acre	Acres for 10-month Grazing Season per 1000 lb Steer on Equivalent	Grade	Land Value Per Acre
Under 3	1A2	\$ 71.69	Under 3	G1A2	\$ 119.84
3-5	1A1	44.18	3-5	G1A1	86.88
5-6	1A+	31.27	5.1-5.9	G1A+	63.19
6-10	1A	20.51	6-10	G1A	43.44
11-18	1B	10.53	11-18	G1B	23.97
19-21	2A	7.17	19-21	G2A	17.38
22-27	2B	5.42	22-27	G2B	14.19
28-37	3	3.72	28-37	G3	10.69
38-55	4	2.52	38-55	G4	7.47
56-99	5	1.47	56-99	G5	4.48
100 or Over	6	.82	100 or Over	G6	2.67

The following is the schedule for the classification and valuation of wild hay land.

OLD			NEW		
Tons of Hay per Acre	Grade	Land Value Per Acre	Tons of Hay Per Acre	Grade	Land Value Per Acre
3.0 & Over	1	\$ 67.60	3.0 & Over	WH1	\$ 294.30
2.5-2.9	2	53.03	2.5-2.9	WH2	249.02
2.0-2.4	3	41.38	2.0-2.4	WH3	203.74
1.5-1.9	4	29.43	1.5-1.9	WH4	158.47
1.0-1.4	5	19.38	1.0-1.4	WH5	113.19
.5-.9	6	10.05	.5-.9	WH6	67.91
less than .5	7	5.54	Less than .5	WH7	22.64



The following is the schedule for the classification and valuation of non-irrigated farmland (continuous cropped).

OLD			NEW		
bu. Wheat Per Acre	Grade	Land Value Per Acre	bu. Wheat Per Acre	Grade	Land Value Per Acre
44 & Over	1A4	\$ 125.71	Does Not Change	CC 1A4	\$ 246.00
42-43	1A3	116.94		CC 1A3	233.06
40-41	1A2	108.17		CC 1A2	220.11
38-39	1A1	99.40		CC 1A1	207.15
36-37	1A	90.63		CC 1A	194.19
34-35	1	81.86		CC 1	181.23
32-33	2	73.09		CC 2	168.27
30-31	3	64.81		CC 3	155.31
28-29	4	57.05		CC 4	142.35
26-27	5	49.75		CC 5	129.39
24-25	6	42.96		CC 6	116.44
22-23	7	36.67		CC 7	103.48
20-21	8	30.87		CC 8	90.52
18-19	9	25.56		CC 9	77.56
16-17	10	20.75	CC 10	64.60	
14-15	11	16.41	CC 11	51.64	
12-13	12	12.59	CC 12	38.69	
10-11	13	9.25	CC 13	25.73	
less than 10	14	6.41	CC 14	12.77	

The following is the schedule for the classification and valuation of non-irrigated farmland  
 Old (Summer fallow) New

Wheat on Summer Fallow	Grade	Assessed Value Per Acre	Bu. Wheat on Summer fallow	Grade	Assessed Value Per Acre
40 + Over	1A8	\$ 81.08	Does not change	F1A8	\$ 103.93
38 - 39	1A7	74.51		F1A7	94.42
36 - 37	1A6	67.94		F1A6	84.91
34 - 35	1A5	61.37		F1A5	75.39
32 - 33	1A4	54.80		F1A4	65.88
30 - 31	1A3	48.60		F1A3	56.37
28 - 29	1A2	42.79		F1A2	46.85
26 - 27	1A1	37.31		F1A1	37.34
24 - 25	1A	32.22		F1A	27.83
22 - 23	1B	27.50		F1B	18.31
20 - 21	2A	23.15		F2A	8.80
18 - 19	2B	19.17		F2B	7.92
16 - 17	2C	15.56		F2C	7.05*
14 - 15	3A	12.31		F3A	6.17*
12 - 13	3B	9.44		F3B	5.30*
10 - 11	4A	6.94		F4A	4.42*
8 - 9	4B	4.81	F4B	3.55*	
Under 8	5	3.06	F5	2.67*	

\*The values designated by an asterisk (\*) in the prior schedule are determined by setting the value for F5 at the value level of G6 grazing. The values for grades F2B-F4B are determined by arithmetically dividing the difference between F2A at \$8.80 and F5 at \$2.67 evenly between those productive grades. The resulting values, will correlate to grazing land values

CLASS 1  
MAXIMUM  
Rotation

OLD

The following are the schedules for the classification and valuation of tillable, irrigated land, arranged by water rotation.

NEW

CLASS 2  
MEDIUM  
Rotation

Tons of Alfalfa Per Acre	Grade	Under	\$ 1.50	\$ 2.50	\$ 3.50	\$ 4.50	\$ 5.50	\$ 6.50	\$ 7.50
4.5+	1A	\$110.40	\$203.74	\$97.07	\$90.40	\$83.74	\$77.07	\$70.40	\$63.74
4.0-4.4	1B	94.70	88.98	83.26	77.55	71.83	66.11	60.39	54.68
3.5-3.9	2	78.70	73.96	69.20	64.45	59.70	54.94	50.19	45.44
3.0-3.4	3	63.70	59.85	56.00	52.16	48.31	44.47	40.62	36.78
2.5-2.9	4	48.53	45.60	42.67	39.74	36.81	33.88	30.95	28.02
2.0-2.4	5	31.92	30.00	28.07	26.14	24.21	22.29	20.36	18.43
1.5-1.9	6	19.86	18.67	17.47	16.27	15.07	13.87	12.67	11.47
1.0-1.4	7	11.37	10.69	10.00	9.31	8.63	7.94	7.25	6.57
Less than 1.0	8	4.55	4.28	4.00	3.72	3.45	3.18	2.90	2.63

Tons of Alfalfa Per Acre	Grade	LAND VALUE Per Acre
4.5+	1A	\$ 717.25
Change	1B	641.75
	2	566.25
	3	490.75
Change	4	415.25
	5	339.75
	6	264.25
Change	7	188.75
	8	113.25
	CLASS 2	
Doesn't Change	1A	\$ 416.87
	1B	372.99
	2	329.11
Change	3	285.23
	4	241.34
	5	197.46
Change	6	153.58
	7	109.70



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1-26-83

Rnw 120  
J. Gibson

BEFORE THE DEPARTMENT OF REVENUE  
OF THE STATE OF MONTANA

IN THE MATTER OF THE REPEAL )	NOTICE OF PUBLIC HEARING ON
of Rules 42.20.141, )	THE REPEAL of Rules 42.20.141,
42.20.142, 42.10.143, )	42.20.142, 42.20.143, 42.20.144,
42.20.144, 42.20.145 and )	42.20.145 and 42.20.146 and the
42.20.146, relating to the )	PROPOSED ADOPTION of Rules I
appraisal of agricultural )	through VIII, relating to the
lands and the PROPOSED )	appraisal of agricultural lands.
ADOPTION of Rules I through )	
VIII, relating to the )	
appraisal of agricultural )	
lands. )	

TO: All Interested Persons:

1. On February 17, 1983, at 10:00 a.m., a public hearing will be held in the First Floor Conference Room of the Mitchell Building at Fifth and Roberts Streets, Helena, Montana, to consider the repeal of the above-referenced rules and to consider the adoption of eight new rules relating to the appraisal of agricultural lands.

2. The rules proposed to be repealed can be found on pages 42-2035 through 42-2039 of the Administrative Rules of Montana.

3. Rule 42.20.141 is proposed to be repealed because the Department has revised the manual out of which agricultural land is classified. Rules 42.20.142 through 42.20.146 are proposed to be repealed because the Department has updated and revised the schedules for the valuation of various types of agricultural land.

4. The rules proposed to be adopted provide as follows:

RULE I AGRICULTURAL LAND CLASSIFICATION - MANUAL ADOPTION

(1) The department of revenue has herein adopted and incorporated the "Montana Agricultural Land Classification Manual (1983 - as revised)" by reference. Copies of this manual may be reviewed in this department or may be purchased from the department at cost plus mailing. AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE II AGRICULTURAL LAND VALUATION - GENERAL PRINCIPLES

(1) All taxable agricultural land shall receive an agricultural land value.

(2) The valuation schedules for land shall be based on a 5 year average of experienced income and expense data, beginning with calendar year 1977 and ending calendar year 1981. They shall become effective as of January 1, 1986, and shall remain in effect during the balance of that appraisal cycle.

(3) Each valuation schedule shall be updated to coincide with the commencement of a new appraisal cycle.

(4) The values assigned to each productive grade of agricultural land shall be the capitalized net agricultural income as determined for 1 acre of land in each of the 5 agricultural land classes at each productive grade level within each land class. AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE III AGRICULTURAL LAND VALUATION - METHODOLOGY (1)

The basic formula for valuing agricultural lands shall be:

(a)

Net Agr. Income = Gross Agr. Income - Operating Expense  
Per Unit of Prod. = Per Unit of Prod. - Per Unit of Prod.

(b) This methodology is more specifically stated as follows:

$$NI/unit = \frac{\sum_{i=1}^n T_i l_i (P_i - AVC_i)}{N}$$

, where

N.I./Unit = net agricultural income estimate per unit of production.

$l_i$  = the weight (average production) obtained from the conversion factor for the  $i$ th crop.

$P_i$  = the average output price

$AVC_i$  = the average operating expense for the  $i$ th crop.

$N$  = the number of years for a complete crop rotation. This applies only to irrigated land. This component does not apply in valuing other classes.

$T_i$  = the proportion of total cropland in crop  $i$  (for nonirrigated summer fallow and continuously cropped only). This component does not apply in valuing other classes.

(2) Convert net agricultural income estimates per unit of production to net agricultural income per acre. This is done by multiplying the net agricultural income per unit of production estimate by the midpoint of each production level as set for each base crop of each agricultural class. The base crop for each agricultural class shall be:

- (a) Nonirrigated farmland (summer fallow) - wheat
- (b) Nonirrigated farmland (continuously cropped) - wheat

- (c) Grazing land - animal unit
  - (d) Wild Hay land - hay
  - (e) Tillable irrigated farmland - alfalfa
- (3) Estimate per acre land values from net agricultural income. The following formula shall be used.

$$\text{Land Value Per Acre} = \frac{\text{Net Agricultural Income Per Acre}}{\text{Capitalization Rate}}$$

(4) After the appropriate capitalization rate is chosen, the formula and net agricultural income estimates allow the derivation of updated land values on a per acre basis. The capitalization rate shall include a discount component and an effective tax rate component.

(5) Values for productive grades of land which generate no value by subsections (1) through (4) of this rule shall be determined by setting the value on the lowest productive grade in that class at the value of the lowest productive grade of grazing land. Values for the remaining grades between the last value generated by subsections (1) through (4) of this rule and the value of the lowest productive grade of grazing shall be determined by arithmetically dividing the difference between these two known values equally.

AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE IV NONIRRIGATED FARM LAND (SUMMER FALLOW) (1) The following is the schedule for the classification and valuation of nonirrigated farmland (summer fallow):

<u>Bu. Wheat Per Acre</u> <u>on Summer Fallow</u>	<u>Grade</u>	<u>Land Value</u> <u>Per Acre</u>
40 & Over	F1A8	\$103.93
38 - 39	F1A7	94.42
36 - 37	F1A6	84.91
34 - 35	F1A5	75.39
32 - 33	F1A4	65.88
30 - 31	F1A3	56.37
28 - 29	F1A2	46.85
26 - 27	F1A1	37.34
24 - 25	F1A	27.83
22 - 23	F1B	18.31
20 - 21	F2A	8.80
18 - 19	F2B	7.92*
16 - 17	F2C	7.05*
14 - 15	F3A	6.17*
12 - 13	F3B	5.30*
10 - 11	F4A	4.42*
8 - 9	F4B	3.55*
Less than 8	F5	2.67*

(2) The values designated by an asterisk (\*) in the prior schedule are determined by setting the value for F5 at the value level of G6 grazing. The values for grades F2B through F4B are

determined by arithmetically dividing the difference between F2A at \$8.80 and F5 at \$2.67 evenly between those productive grades. The resulting values, therefore, will correlate to grazing land values.

AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

✓ RULE V NONIRRIGATED FARMLAND (CONTINUOUSLY CROPPED)

(1) The following is the schedule for the classification and valuation of nonirrigated farmland (continuously cropped):

<u>Bu. Wheat Per Acre</u>	<u>Grade</u>	<u>Land Value Per Acre</u>
44 & Over	CC1A4	\$246.02
42 - 43	CC1A3	233.06
40 - 41	CC1A2	220.11
38 - 39	CC1A1	207.15
36 - 37	CC1A	194.19
34 - 35	CC1	181.23
32 - 33	CC2	168.27
30 - 31	CC3	155.31
28 - 29	CC4	142.35
26 - 27	CC5	129.40
24 - 25	CC6	116.44
22 - 23	CC7	103.48
20 - 21	CC8	90.52
18 - 19	CC9	77.56
16 - 17	CC10	64.60
14 - 15	CC11	51.64
12 - 13	CC12	38.69
10 - 11	CC13	25.73
Less than 10	CC14	12.77

AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE VI GRAZING LAND (1) The following is the schedule for the classification and valuation of grazing land:

✓ Acres for  
10-Month Grazing  
Season per 1000 lb.  
Steer or Equivalent

<u>Acres for 10-Month Grazing Season per 1000 lb. Steer or Equivalent</u>	<u>Grade</u>	<u>Land Value Per Acre</u>
Under 3	G1A2	\$119.84
3 - 5	G1A1	86.88
5.1- 5.9	G1A+	63.19
6 - 10	G1A	43.44
11 - 18	G1B	23.97
19 - 21	G2A	17.38
22 - 27	G2B	14.19
28 - 37	G3	10.69
38 - 55	G4	7.47
56 - 99	G5	4.48
100 or Over	G6	2.67



(2) About four range ewes with lambs are considered the equivalent of a 1000 lb. steer. Calves are usually not considered until weaned, and four yearling steers or heifers are considered as equivalent to three 1000 lb. steers. A dry cow is considered the equivalent of a 1000 lb. steer. A range cow with calf is equivalent to a 1000 lb. steer. AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE VII WILD HAY LAND (1) The following is the schedule for the classification and valuation of wild hay land:

<u>Tons of Hay Per Acre</u>	<u>Grade</u>	<u>Land Value Per Acre</u>
3.0 & Over	WH1	\$294.30
2.5 - 2.9	WH2	249.02
2.0 - 2.4	WH3	203.74
1.5 - 1.9	WH4	158.47
1.0 - 1.4	WH5	113.19
.5 - .9	WH6	67.91
Less than .5	WH7	22.64

AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.

RULE VIII TILLABLE IRRIGATED LAND (1) The following are the schedules for the classification and valuation of tillable irrigated land, arranged by rotation:

Class 1 (Maximum Rotation)

<u>Tons of Alfalfa Per Acre</u>	<u>Grade</u>	<u>Land Value Per Acre</u>
4.5 & Over	I1A	\$717.25
4.0 - 4.4	I1B	641.75
3.5 - 3.9	I2	566.25
3.0 - 3.4	I3	490.75
2.5 - 2.9	I4	415.25
2.0 - 2.4	I5	339.75
1.5 - 1.9	I6	264.25
1.0 - 1.4	I7	188.75
Less than 1.0	I8	113.25

Class 2 (Medium Rotation)

<u>Tons of Alfalfa Per Acre</u>	<u>Grade</u>	<u>Land Value Per Acre</u>
4.5 & Over	I1A	\$416.87
4.0 - 4.4	I1B	372.99
3.5 - 3.9	I2	329.11
3.0 - 3.4	I3	285.23
2.5 - 2.9	I4	241.34
2.0 - 2.4	I5	197.46

1.5 - 1.9	I6	153.58
1.0 - 1.4	I7	109.70
Less than 1.0	I8	65.82

Class 3 (Minimum Rotation)

<u>Tons of Alfalfa</u> <u>Per Acre</u>	<u>Grade</u>	<u>Land Value</u> <u>Per Acre</u>
4.5 & Over	I1A	\$216.10
4.0 - 4.4	I1B	193.35
3.5 - 3.9	I2	170.61
3.0 - 3.4	I3	147.86
2.5 - 2.9	I4	125.11
2.0 - 2.4	I5	102.36
1.5 - 1.9	I6	79.62
1.0 - 1.4	I7	56.87
Less than 1.0	I8	34.12

AUTH: 15-1-201 MCA; IMP: 15-6-133 MCA.


(5) These rules are being proposed in order that agricultural lands will be appraised, valued and classified in conformity with Montana statutory law. In addition, they will insure that the methods employed to appraise, value and classify such lands are uniform in nature and equitable in result. Proposed Rule I adopts a standardized manual for purposes of agricultural classification. Rule II prescribes certain general principles relating to the valuation of agricultural land. Rule III adopts a specific formula through which agricultural lands would be valued. Rule IV sets forth a specific schedule for the classification and valuation of nonirrigated farmland (summer fallow). Rule V sets forth a specific schedule for the classification and valuation of nonirrigated farmland (continuously cropped). Rule VI sets forth a specific schedule for the classification and valuation of grazing land. Rule VII sets forth a specific schedule for the classification and valuation of wild hay land. Rule VIII sets forth a specific schedule for the classification and valuation of tillable irrigated land.

6. Interested persons may present their data, views, or arguments either orally or in writing at the hearing. Written data, views, or arguments may also be submitted no later than February 25, 1983, to:

Larry Schuster  
 Department of Revenue  
 Mitchell Building  
 Helena, Montana 59620

7. Denny Moreen, Agency Legal Services has been designated to preside over and conduct the hearing.

8. The authority of the Department to repeal the rules is based on 15-1-201, MCA, and the rules implement 15-7-103, MCA. The authority of the Department to make the proposed rules is based on 15-1-201, MCA. The proposed rules implement 15-6-133, MCA.



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ELLEN FEAVER, Director  
Department of Revenue

Certified to Secretary of State 01/17/83