

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By Chairman Dan Harrington, on January 15, 1991,
at 9:05 a.m.

ROLL CALL

Members Present:

Dan Harrington, Chair (D)
Bob Ream, Vice Chair (D)
Ben Cohen, Vice Chair (D)
Ed Dolezal (D)
Jim Elliott (D)
Orval Ellison (R)
Mike Foster (R)
Bob Gilbert (R)
Marian Hanson (R)
David Hoffman (R)
Jim Madison (D)
Ed McCaffree (D)
Bea McCarthy (D)
Tom Nelson (R)
Mark O'Keefe (D)
Bob Raney (D)
Ted Schye (D)
Barry "Spook" Stang (D)
Dave Wanzenried (D)

Members Absent:

Russell Fagg (R)
Fred Thomas (R)

Staff Present: Lee Heiman, Legislative Council
Mona Spaulding, Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Announcements/Discussion:

CHAIRMAN DAN HARRINGTON asked **VICE CHAIRMAN BOB REAM** to chair the
committee for the hearing on HB 137.

HEARING ON HB 137Presentation and Opening Statement by Sponsor:

REP. DAN HARRINGTON, House District 68, Butte, stated HB 137 was requested by the Department of Revenue to insure that the agricultural land reappraisal section conform with residential and commercial reappraisal sections. The 1989 legislature extended current reappraisal sections two years, until 1993. 15-7-201 Montana Codes Annotated (MCA), which provides this procedure for valuing agricultural land, was overlooked. Unless this law is changed, the new agricultural land valuation schedule may take effect this year, since some previous law concerning valuation schedule expired January 1st. If it does, agricultural land may have to be reappraised this year.

Section 1 of this bill clarifies new procedure for valuing agricultural land and is applicable to 1993 land valuation schedules. Amendments are found on page 1, line 15; and page 2, line 5.

Section 2 reinstates previous valuation procedures. Because reappraisals will not occur until 1993, there will be occasion when the Department of Revenue will need use of the previous procedures.

Section 3 also clarifies the new schedules which take effect in 1993.

Section 4 makes the act effective on past due total.

Section 5 provides for retroactive application of the amendments. Amendments are effective in 1991.

Mr. Denis Adams, Director, Department of Revenue, is present and will speak to any questions.

Proponents' Testimony:

Mr. Denis Adams said the bill eliminates concern as to when new valuation schedules take effect. During the next two years, old schedules will be used while new schedules are being established.

Opponents' Testimony:

None

Questions From Committee Members:

REP. ORVAL ELLISON asked for an explanation of the formula. Ken

Morrison, Property Assessment Division, Department of Revenue distributed applicable statutes, **EXHIBIT 1**. Capitalized income, based upon productivity, becomes the approach to determine the value of agricultural land. Homes and business valuations are based on market value. Page 2, 15-7-201 gives the formula and definitions for variables for the capitalized income approach:
 $V = I/R$.

15-7-201 also provides for a committee to be appointed by the director. It will assist in the determination of elements of the formula and will rely on data prepared by Montana State University (MSU).

REP. MARK O'KEEFE asked if fiscal impacts on the general fund could be projected. **Mr. Adams** said not at this point. An average of three most recent years will be used in productivity values. Information for the next two years is not yet available from M.S.U.

REP. O'KEEFE asked if it is anticipated that agricultural reappraisals throughout the state will have the same problems experienced with residential reappraisals, such as Great Falls. **Mr. Adams** said as seen under HB 703, even though net change in capital valuation across the state may be unchanged, it does have an impact on communities. The impact for agricultural land can't be estimated at this point.

REP. JIM ELLIOTT asked for a definition of "bonafide agricultural property" as used in Exhibit 1. **Mr. Morrison** said for it is land which exceeds 20 acres; one exception is land less than 20 acres with at least \$1,500 income from agricultural activities. **REP. ELLIOTT** asked if the definition included people who move to the state and buy property for the primary purpose of enjoying Montana's scenic beauty. **Mr. Adams** said anyone who acquires acreage which meets the criteria is eligible for the agricultural classification.

REP. BOB REAM noted that practical application involved classifications such as irrigated, non-irrigated, grazing, etc. He asked if, within each of the classes, productive classes are established by the committee. **Mr. Adams** said yes. Categorization for all agricultural property is based on recommendation made by state appraisers and accountants. **REP. REAM** asked if a change in classification occurs when change of use occurs in a given tax year. **Mr. Adams** said yes; it does not happen frequently.

REP. ELLISON asked if the current classification method would be continued under the new reappraisal method. **Mr. Adams** said yes.

Closing by Sponsor:

REP. HARRINGTON clarified that the method of reappraisal was not an issue, just the extension of time.

EXECUTIVE ACTION ON 137

Motion:

REP. ELLISON moved to pass.

Recommendation and Vote:

DO PASS motion carried unanimously by voice vote.

Announcements/Discussion:


CHAIRMAN HARRINGTON verified that all members had received a subcommittee assignment, EXHIBIT 2.

REP. REAM announced the Income Tax Subcommittee meets 1/16/91, 8:00 a.m., room 132.

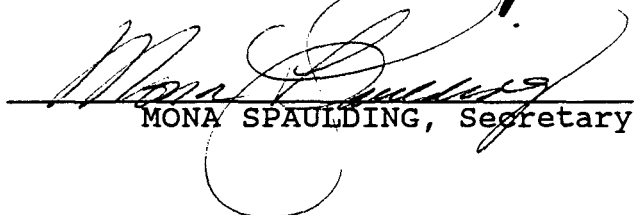
REP. BEN COHEN announced the Property Tax Subcommittee meets 1/16/91, 8:00 a.m., room 437. Bring the Biennial Report, see EXHIBIT 1, Taxation Committee, January 8, 1991.

ADJOURNMENT

Adjournment: 9:07 a.m.



DAN HARRINGTON, Chair



MONA SPAULDING, Secretary

DH/mls

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL

DATE 1/15/91

NAME

PRESENT

ABSENT

EXCUSED

REP. DAN HARRINGTON, CHAIRMAN	✓		
REP. BOB REAM, VICE-CHAIRMAN	✓		
REP. BEN COHEN, VICE-CHAIRMAN	✓		
REP. ED DOLEZAL	✓		
REP. JIM ELLIOTT	✓	X	
REP. ORVAL ELLISON	✓		
REP. RUSSELL FAGG		✓	
REP. MIKE FOSTER	✓		
REP. BOB GILBERT	✓		
REP. MARIAN HANSON	✓		
REP. DAVID HOFFMAN	✓		
REP. JIM MADISON	✓		
REP. ED MCCAFFREE	✓		
REP. BEA MCCARTHY	✓		
REP. TOM NELSON	✓	X	
REP. MARK O'KEEFE	✓	X	
REP. BOB RANEY	✓		
REP. TED SCHYE	✓	X	
REP. BARRY "SPOOK" STANG	✓		
REP. FRED THOMAS		✓	
REP. DAVE WANZENRIED	✓		

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HOUSE STANDING COMMITTEE REPORT

January 15, 1991

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that House Bill 137 (first reading copy -- white) do pass .

Signed: _____
Dan Harrington, Chairman

15-7-131

TAXATION

EXHIBIT 1

DATE 1-15-91

HB 137

Cross-References

Use of resort community tax revenue to reduce property tax, 7-6-4467.

15-7-123 through 15-7-130 reserved.

15-7-131. Policy. It is the policy of the state of Montana to provide for equitable assessment of taxable property in the state and to provide for periodic revaluation of taxable property in a manner that is fair to all taxpayers.

History: En. Sec. 1, Ch. 13, L. 1989.

15-7-132. Purpose. (1) It is the purpose of 5-18-115 and 15-7-131 through 15-7-133 to provide an additional 2 years for completion of the current revaluation cycle, implemented pursuant to 15-7-111 through 15-7-114, in order to permit the department of revenue to comply with the revaluation requirements of 15-7-111 through 15-7-114 in a manner that implements the policy provided for in 15-7-131.

(2) It is not necessary for the department to commence another 5-year revaluation cycle pursuant to 15-7-111 until January 1, 1993.

History: En. Sec. 2, Ch. 13, L. 1989.

15-7-133. Extension of current revaluation cycle. (1) Notwithstanding the provisions of 15-7-111 through 15-7-114, the current revaluation cycle implementing 15-7-111, scheduled to end on December 31, 1990, and representing a 5-year period commencing January 1, 1986, is hereby extended for an additional 2 years, ending December 31, 1992. The new values determined during this period must be placed on the tax rolls in accordance with 15-7-111(2).

(2) It is not necessary for the department to commence another 5-year revaluation cycle pursuant to 15-7-111 until January 1, 1993.

(3) The extension provided for in subsection (1) does not affect the validity of any assessment made or any taxes levied during the period from January 1, 1986, to December 31, 1992.

History: En. Sec. 3, Ch. 13, L. 1989.

Cross-References

Department of Revenue to report revaluation progress to Revenue Oversight Committee, 5-18-115.

Part 2

Greenbelt Appraisal

Part Cross-References

Legislature to enact laws to enhance and develop agriculture, Art. XII, sec. 1, Mont. Const.

Classification and taxable percentage of agricultural land, 15-6-133.

Assessment of agricultural land, 15-8-111.

15-7-201. (Temporary — applicable to 1986 land valuation schedules)
Legislative intent — value of agricultural property. (1) Since the market value of many agricultural properties is based upon speculative purchases which do not reflect the productive capability of agricultural land, it

the legislative intent that bona fide agricultural properties shall be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

(2) Agricultural land shall be classified according to its use, which classifications shall include but not be limited to irrigated use, nonirrigated use, and grazing use. Except as provided in subsections (3) and (4), within each class of agricultural land, such land shall be assessed at a value that is fairly based on its ability to produce.

(3) Capital costs such as improved water distribution, fertilizer, and land shaping that increase productivity shall not be used in determining assessed values.

(4) For the revaluation beginning January 1, 1986, the department of revenue shall continue to use the agricultural land valuation schedules in effect on January 12, 1984, except that irrigated land values shall be revised, taking noncapital water distribution costs into consideration. However, at no time may the value of irrigated land be below the value such land would have if it were not irrigated. (*Terminates January 1, 1991—sec. 10, Ch. 681, L. 1985.*)

15-7-201. (Applicable to 1991 land valuation schedules) Legislative intent — value of agricultural property. (1) Since the market value of many agricultural properties is based upon speculative purchases which do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties shall be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

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

(3) Within each class, land shall be assessed at a value that is fairly based on its productive capacity.

(4) In computing the agricultural land valuation schedules to take effect on January 1, 1991, or on the date that the revaluation cycle commencing January 2, 1986, takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the formula $V = I/R$ where:

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

(b) I is the per-acre net income of agricultural land in each land use and production category and is to be determined by the department using the formula $I = (P - C) U$ where:

(i) I is the per-acre net income;

(ii) P is the per-unit price of the commodity being produced;

(iii) C is the per-unit production cost of the commodity being produced; and

(iv) U is the yield in units per acre; and

(c) R is the capitalization rate to be determined by the department as provided in subsection (9).

(5) Net income shall be:

(a) calculated for each year of a base period, which is the most recent 3-year period for which data are available, prior to a revaluation of property as provided in 15-7-111; and

(b) based on commodity price and production cost data for the base period from such sources as may be considered appropriate by the department, which sources shall include Montana state university.

(6) To the degree available, the department shall compile:

(a) commodity price data reflecting the average prices received per unit of measure by Montana farmers and ranchers. Such data may be obtained from all geographical areas of the state. Commodity prices may include wheat, barley, alfalfa hay, grass hay, corn for grain, corn for silage, sugar beets, dry beans, potatoes, cattle, and sheep. Government payments may be considered. Typical rental arrangements may be considered.

(b) production cost data reflecting average costs per unit of measure paid by Montana farmers and ranchers. Such data may be obtained from all geographical areas of the state. Such production costs may include costs relating to irrigation, fertilization, fuel, seed, weed control, hired labor, management, insurance, repairs and maintenance, and miscellaneous items. Variations in specific production cost data, when affected by different levels of production, and typical rental arrangements may be considered.

(7) The department shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to review the data prepared by Montana state university and advise the department on the implementation of subsections (2) through (6). The advisory committee shall include one member of the Montana state university staff.

(8) Net income shall be determined separately for lands in irrigated use, nonirrigated use, and grazing use and shall be calculated for each use and production level according to the provisions of subsections (4) through (7).

(9) The capitalization rate shall be calculated for each year of the base period and is the annual average interest rate on agricultural loans as reported by the federal land bank association of Spokane, Washington, plus the effective tax rate in Montana.

(10) The effective tax rate shall be calculated by the department for each year of the base period by dividing the total estimated tax due on agricultural land in the state by the total productive capacity value of agricultural land in the state.

History: En. Sec. 1, Ch. 512, L. 1973; R.C.M. 1947, 84-437.1; amd. Sec. 1, Ch. 644, L. 1983; amd. Sec. 1, Ch. 681, L. 1985; amd. Sec. 1, Ch. 705, L. 1985.

15-7-202. Eligibility of land for valuation as agricultural. (1) Contiguous parcels of land totaling 20 acres or more under one ownership shall be eligible for valuation, assessment, and taxation as agricultural land each year that none of the parcels is devoted to a commercial or industrial use.

(2) Contiguous or noncontiguous parcels of land totaling less than 20 acres under one ownership that are actively devoted to agricultural use shall be eligible for valuation, assessment, and taxation as herein provided each year the parcels meet any of the following qualifications:

(a) the parcels produce and the owner or the owner's agent, employee, or lessee markets not less than \$1,500 in annual gross income from the raising of livestock, poultry, field crops, fruit, and other animal and vegetable matter for food or fiber; or

EXHIBIT 2
DATE 1-15-91
HB NONE

MONTANA HOUSE OF REPRESENTATIVES
52ND LEGISLATURE - REGULAR SESSION

Subcommittees to the Committee on Taxation

CHAIR: DAN HARRINGTON

PROPERTY TAX

Ben Cohen, Vice Chair
Ted Schye
Mark O'Keefe
Ed McCaffree
Ed Dolezal
Dave Wazenried
Orval Ellison
Fred Thomas
David Hoffman
Russell Fagg

INCOME/SEVERANCE TAX

Bob Ream, Vice Chair
Bob Raney
Jim Elliott
Barry Stang
Jim Madison
Bea McCarthy
Bob Gilbert
Marion Hanson
Tom Nelson
Mike Foster

TAXATION

COMMITTEE

DATE 1/15/91

SPONSOR Harrington

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.