

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on February 21, 1991, at 8:12 AM

ROLL CALL

Members Present:

Rep. Ben Cohen, Vice-Chairman (D)
Rep. Ed Dolezal (D)
Rep. Orval Ellison (R)
Rep. Russell Fagg (R)
Rep. David Hoffman (R)
Rep. Ed McCaffree (D)
Rep. Mark O'Keefe (D)

Members Excused:

Rep. Dan Harrington (D)
Rep. Ted Schye (D)
Rep. Fred Thomas (R)
Rep. Dave Wanzenried (D)

Staff Present: Lee Heiman, Legislative Council
Julia Tonkovich, Committee Secretary

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

HB 282 -- DEPARTMENT OF STATE LANDS PRESENTATION

Dennis Casey, Department of State Lands (DSL) said Montana owns approximately 5.2 million acres of trust land. 18 counties have state land in excess of 6% of total acreage; close to half of all Montana state land is contained within these counties. At the time of statehood, the federal government intended to grant slightly less than 6% of every township to the state. Land set aside for homesteading, reservations and other purposes has adjusted the "perfect checkerboard" the government envisioned; therefore, some counties have an excess of 6%. Nearly 25% of land in Daniels County is state-owned; Beaverhead County has approximately 10% state land. Under present law, DSL must provide the Department of Revenue (DOR) information on those counties with state lands in excess of 6%. Each of these counties requests an equalization payment from DSL (out of the General Fund) that would compensate for what the county would have received in taxes were its state land privately owned. In

recent years, requests have ranged from \$330,000 to \$390,000; however, the legislature has appropriated \$265,000 for this purpose, requiring DSL to make prorated payments to the counties. In 1987, DSL paid counties 81% of what they requested; that percentage declined to 74% in 1988, 72% in 1989, and 68% in 1990.

Approximately 4 million acres of the 5.2 total acres of state land are leased for grazing purposes. 560,000 acres are leased for agricultural purposes, and 500,000 acres are timber lands. Timber lands are used primarily for timber sales, although we do occasionally license those properties for special uses.

REP. COHEN asked how lands are leased. **Mr. Casey** replied DSL estimates the carrying capacity of the land. A formula determined by the legislature determines the minimum AUM; this formula is 6 x average price of grazing animal from the previous year. For example, in 1991 the AUM rate was \$4.24/AUM. This rate is adjustable by 10 cents according to the carrying capacity of the land in question; land with low carrying capacity is rated at \$4.14/AUM, and land with high carrying capacity is rated at \$4.34/AUM. An average 640-acre section of land has a carrying capacity of 160-180 AUMs (the number of AUMs has decreased statewide due to drought).

Grazing leases span 10 years. At the time of lease renewal, DSL accepts competitive bids for the lot. The lessee has preference rights (s/he may meet the highest bid). Because of this bidding process, DSL's income from grazing properties exceeds what the amount would have been were all these lots receiving \$4.24/AUM.

The income generated by leased grazing lands averages \$1.10/acre. Of approximately 560,000 acres of agricultural land, the minimum rental is a crop share rental of 25%. Due to competitive bidding on some tracts, some properties share 35-42% of the crops. When there is a competitive bid, the lessee has three options.

- 1) S/he may meet the bid
- 2) S/he may relinquish the lease
- 3) S/he may meet the bid and request a hearing with the county commissioner to challenge the high bid. The high bidder may also attend this hearing and offer a rebuttal.

REP. O'KEEFE asked for clarification of the bidder preference process. **Mr. Casey** said present law does not allow an open bidding process; if the lessee meets the highest bid, the high bidder may not submit another bid for the land.

REP. FAGG asked if the state were losing money because of the restrictive bid process on state land. **Mr. Casey** replied changing the preference right bid process would increase competition and eventually increase income; however, preference rights often ensure good land management.

REP. DOLEZAL asked what restrictions are placed upon the lessee. **Mr. Casey** replied DSL doesn't place many building restrictions on the lots, as long as the structures are non-residential and

designed to improve the land's productivity. The lessee is required to notify DSL of any construction. Fences may not be taxed.

Bob Kuchenbrod, DSL, reviewed the current method of payments for state lands and explained the proposed changes to the method. **Exhibit 1** DSL receives requests from each of the 18 counties with an excess of 6% state land. The department must first identify the accuracy of the process by which these requests were drafted, as there is no standard procedure.

REP. COHEN clarified the valuation process. The productive value of the land is multiplied by 30%, which gives the taxable value. This taxable value is then multiplied by the mill levy, which gives the total value. **Mr. Kuchenbrod** said DSL applies their formula to this total. DSL calculates the county's percentage of state land above 6%; this factor identifies the amount of the state exemption and the amount of DSL payments. These payments must be prorated according to how much the legislature has appropriated in any given year; last year, counties received approximately 68% of their requests due to lack of appropriated funds.

Mr. Casey said HB 282 would change the formula so that DOR would provide DSL with an average of the taxable values of grazing, agricultural and timber lands. **Ken Morrison, DOR**, explained the amendments. Much state land is not classified; thus the assessed value may not reflect the productive value. These amendments provide a uniform method of valuing state lands using statewide averages; they don't affect the distribution of funds. The numbers here approximate actual values.

Mr. Casey said DSL supports the formula changes proposed in the DOR amendments. However, with the new formula, counties' requests will probably increase by approximately \$100,000.

REP. O'KEEFE noted the numbers on the fiscal note, attributed to the Montana Association of Counties (MACO), are erroneous; **Gordon Morse, MACO**, said MACO was not responsible for those numbers; he had advised the full committee that the figures on the fiscal note are fictitious and are not MACO's calculations.

REP. O'KEEFE said HB 282's formula does not tie appropriations' hands; it creates a fairer method of calculating how much money should be given to the counties, but does not designate how much shall be given.

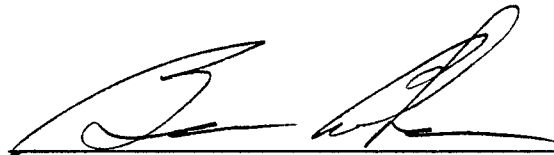
Mr. Casey said the 18 counties involved are currently taxing at a lower rate than the state average.

Motion/Vote:

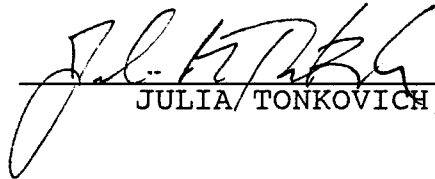
REP. FAGG moved to recommend HB 282 as amended to the full committee. Bill will be recommended after transmittal.

ADJOURNMENT

Adjournment: 8:42



BEN COHEN, Chair



JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES
PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE

2/21/91

NAME	PRESENT	ABSENT	EXCUSED
REP. BEN COHEN, VICE-CHAIR	X		
REP. ED DOLEZAL	X		
REP. ORVAL ELLISON	X		
REP. RUSSELL FAGG	X		
REP. DAVID HOFFMAN	X		
REP. ED MCCAFFREE	X		
REP. MARK O'KEEFE	X		
REP. TED SCHYE			X
REP. FRED THOMAS			X
REP. DAVE WANZENRIED			X
REP. DAN HARRINGTON, CHAIRMAN			X