

MINUTES

**MONTANA SENATE
53rd LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By Vice Chairman Dorothy Eck, on January 22, 1993, at 8:06 a.m.

ROLL CALL

Members Present:

Sen. Dorothy Eck, Vice Chair (D)
Sen. Bob Brown (R)
Sen. Steve Doherty (D)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John Harp (R)
Sen. Spook Stang (D)
Sen. Tom Towe (D)
Sen. Fred Van Valkenburg (D)
Sen. Bill Yellowtail (D)

Members Excused: Sen. Mike Halligan (D)

Members Absent: None.

Staff Present: Jeff Martin, Legislative Council
Bonnie Stark, Committee Secretary

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

Committee Business Summary:

Hearing: SB 168, SB 170
Executive Action: None.

The Proponents' Testimony, Opponents' Testimony, and Questions From Committee Members and Responses, are combined for SB 168 and SB 170, and appear after the Opening Statement By Sponsor on SB 170.

HEARING ON SB 168

Opening Statement by Sponsor:

Senator Tom Beck, representing Senate District 24, presented Senate Bill 168, which is an act revising the method of valuing agricultural lands in Class Three property for property tax purposes; holding constant the statewide total taxable value of Class Three property between reappraisal cycles; phasing in over two reappraisal cycles the change in the productive capacity

value of agricultural lands; taxing Class Three property at the rate applicable to Class Four property; establishing an advisory committee to review water costs in determining the productive capacity of irrigated lands; and providing an immediate effective date, an applicability date to tax years beginning on or after January 1, 1994, and a termination date of January 1, 1994. Senator Beck explained that SB 168 was introduced at the request of the Department of Revenue's Agriculture Land Advisory Committee (ALA Committee). The ALA Committee was comprised of eleven Montanans who studied agricultural taxation for eighteen months. Sen. Beck said SB 168 changes valuation methodology for taxation of agricultural lands in Montana, beginning in 1994. He said the 1985 Legislature reviewed the taxation of agricultural lands and made a decision to maintain existing values until the next reappraisal cycle and provide statutory procedures for appraising ag lands. When the ALA Committee evaluated the procedures enacted by the Legislature, it was apparent that the new procedures were flawed and would result in an unanticipated 258% state-wide increase on ag land taxable values. Therefore, the ALA Committee recommended revised procedures for valuing ag lands. Sen. Beck stated that the Legislature is mandated to value ag lands on their productive capacity. With the valuation procedures found in SB 168, the productive and assessed value of most agricultural lands will increase, substantially in some cases. The values do reflect the productive capacity value of agriculture lands. The assessed value was partially determined by capitalizing the rental value of the land. The rental value should be determined by crop share on crop land, and the pricing of grazing fees should be based on a seven year average. These are all changes the ALA Committee made from the previous methodology of determining values.

Sen. Beck went on to state that water costs due to energy and labor should be deducted from the rental value prior to determining the assessed value of the irrigated land. The water costs should account for higher costs and the capitalization rate in this formula should be a 6.4%. SB 168 provides for reduction in the taxable value rate for agricultural land from 30% to 3.86%, which is the same classification as the rate used on commercial and residential property. By placing ag lands in the classification of Class 4 in the codes, the state-wide total agricultural land taxable value under this bill will not change significantly from the current taxable value. There are shifts in taxable worth among agricultural lands. In general, taxable value on irrigated continuous crops and grazing lands will increase and non-irrigated farm land will decrease. The impact depends on the class and grade of the land. SB 168 provides for the changes to take effect in phases, between now and 1997. Sen. Beck stated that he will suggest in amendment that the changes take place 25% each year of the reappraisal cycle through 1997. Sen. Beck asked that members of the Agricultural Advisory Committee be able to speak to the bill. Exhibit No. 1 to these minutes is the written Report of the Department of Revenue Agricultural Land Advisory Committee.

Les Hirsch, Chairman of the Agricultural Land Advisory Committee (ALA Committee), said that Montana is neither a high ag tax state nor a low ag tax state. Montana ranks about 25th in the Nation and about 4th in the Rocky Mountain Region under the present and the recommended system. He stated that the ALA Committee would like to maintain a taxable value neutrality throughout ag real estate, although they recognize there are significant shifts between the types of agricultural land that farmers and ranchers own. Mr. Hirsch stated that there are seven classes of land in the current system, and within the seven classes there are several grades of land. Under the current system, water class deduction is allowed which significantly impacts the tax liability of the irrigated acre. Under MCA 15-7-201, in the current system, the taxable value of the land is based on its agricultural productivity and the capitalization of income approach which is quite cumbersome. The ALA Committee has recommended primary changes in MCA 15-7-201. He restated the changes addressed by Sen. Beck and expanded on the reasons for the changes. Exhibit No. 2, attached to these minutes, is the Report of the Agricultural Land Advisory Committee on Property Taxes.

Alan Evans, Roundup, a member of the Agriculture Land Advisory Committee, stated that he has been involved for many years with land economic policy development. Mr. Evans stated that tax policy by its nature must be developed from reliable statistics for tax policy to be fair and equitable and the ALA Committee paid a great amount of attention to that. The cap rate is nothing more or less than the rate of return on investment. He stated that in grazing land it runs about 4%, in dry land farming it runs about 5.5%, and in the case of irrigated land, about 8%. On the basis of this, the ALA Committee determined the 6.4% cap rate. He said the ALA Committee agreed that whatever system they came up with must be backed by statistics. However, the ALA Committee was not able to pin down how the irrigated formula had been set in 1962.

Informational Testimony:

Mick Robinson, Director, Montana Department of Revenue, stated the DOR's support of SB 168. Mr. Robinson said this bill is a product of public input, significant work, compromise, and consensus.

HEARING ON SB 170

Opening Statement by Sponsor:

Senator Greg Jergeson, Senate District 8, opened the hearing on SB 170 by stating his appreciation for the joint hearing on these two bills, SB 168 and SB 170. He stated there is more unity between these two bills than disunity. Sen. Jergeson said what is currently scheduled to go into effect in 1994 has come to

be known as the mandated program. The rural communities are up in arms, and rightfully so, in that the magnitude of the changes in taxable values of land, and corresponding change in mill levies, would mean tax increases on the average of 258%, which would be an intolerable change. Sen. Jergeson reported he went to one of the ALA Committee's first public meetings last year, and he generally approved of the ALA Committee's recommendations which simply and accurately reflect productivity. Sen. Jergeson did have a bit of concern when he saw the average increase for irrigated agricultural land in the state would be in the magnitude of 47%. Sen. Jergeson recognized that when formulas are made there are winners and losers and this would have to be tolerated. However, many people at the public meeting he attended in Fort Benton voiced concerns about the changes, beyond the 47% increase in taxes on irrigated lands. Sen. Jergeson reported that after research was conducted on these formulas with one particular case in mind, it was discovered that in that case, the increase would be closer to 110% in taxable valuation. The disparity exists because 47% is the average, and there are those who are a great deal above it. Under the current method of valuing ag lands in Montana, irrigated land counts for 10% of ag land tax values. Under the ALA Committee recommendations, that percentage will rise to 14% of ag land taxable values. Sen. Jergeson stated that his goal is to monitor that shift, not eliminate it, but moderate it so that the new percentage would be closer to 12%.

The effort to find that moderation resulted in SB 170. In that effort, Sen. Jergeson tried to calculate water costs for deduction as a quad percentage of gross crop value of the irrigated crop. He used the ALA Committee recommendation for alfalfa, and the yields and prices described by the ALA Committee, in an attempt to maintain revenue neutrality in adjusting the taxable rate. The ALA Committee recommended the taxable rate of 3.86%. With Sen. Jergeson's estimates to maintain revenue neutrality, the taxable rate would have to go to 4.03%. Sen. Jergeson found considerable resistance to the change. Primarily, the first objection was to changing the taxable rate. There is a tremendous effort on the part of some people to get nearly all classification of property, including agricultural land, in at the same rate as industrial, residential, and commercial properties, which are at 3.86%.

Sen. Jergeson said there needs to be information that describes the very real problems with using a flat percentage of gross crop value as the method of determining water costs for a deduction. The problem is it provides a tax advantage to those irrigators who have low water costs and it provides a tax disadvantage to those irrigators who have a high water cost. It causes pluses and minuses throughout the tables and Sen. Jergeson could not recommend proceeding with that method, so he pursued a second alternative.

Sen. Jergeson said that currently the ALA Committee is recommending that water costs be determined based upon labor and energy. Sen. Jergeson sees a problem with only using labor and energy as measures of valid water costs. In the first place, it ignores the cost of the water delivery system costs. An alternative is to provide an option to irrigators, that they either be able to take a water cost deduction based on labor and energy costs, or if they wanted to include the other costs, add water delivery costs, add labor, add energy, and divide by a factor such as two. The Department of Revenue came up with tables which showed what the new formula would create. Sen. Jergeson said he cannot recommend that proposal either because it creates increases and decreases all over the board, and even within individual irrigation districts, there would be great differing amounts.

Sen. Jergeson stated that he is at a loss as to how to achieve his goal to moderate the impacts and to change the amount of total taxable value of ag land from 10% to 12% rather than to 14%. Sen. Jergeson stated that he cannot in good conscience recommend SB 170 as an alternative to SB 168. He stated that there is a very serious issue at stake in how water costs are calculated and allocated in the formula, and this issue has to be addressed at some point.

Questions From Committee Members and Responses:

Dr. Myles Watts, Montana State University, a member of the Agricultural Land Advisory Committee, responded to questions from the Taxation Committee at this time of the meeting because he had to leave the meeting early. Further Questions From Committee Members And Responses start on page 12 of these minutes.

Senator Grosfield asked Dr. Watts about the possibility of using the different averages for irrigated/non-irrigated pasture, and how the 6.4% average was determined. Dr. Watts said that in taking a simple average, the percentage is 6.9; taking a weighted average, the percentage is 6.1. Neither one is entirely fair, so the ALA Committee made a judgment. Another consideration, after looking at ag land taxes in Montana relative to other states, it appeared like they were fairly reasonable and consistent with other states. The ALA Committee also looked at the capitalization rate that would result in revenue neutrality. All those factors considered, the ALA Committee came up with 6.4%. Dr. Watts said if different calculating rates are used, and revenue neutrality is maintained, the tax burden on irrigation would go up over the recommended rate because the highest rent value ratio is associated with dry land irrigated crop. Dry land irrigated crop, in terms of what is referred to as the capitalized rent, is a high proportion of the total, and even though it is only 23% of the land, it's about 50% of the aggregate rent being capitalized; thus, it has a huge weight on the system. The rent-to-value ratio is higher in that area. Dr. Watts said the other thing that would happen is that dry land

crop land would be the one that went down, and it is already the one receiving the largest decrease. There will be an even wider divergence, not less, in terms of the recommended versus the current system, if you used individual capitalization based upon that table.

Senator Doherty commented that the ALA Committee was trying to set up some framework based on productivity of the land. The Senator asked Dr. Watts if any thought was given to how the productivity of the land has changed, or the fact that extra value has been added to some land that is leased for hunting and fishing purposes during certain periods of the year, which would increase the value of the land, resulting in extra income generated from those lands. Dr. Watts said in their valuation process, there was no credit given to values other than those generated from agriculture. The ALA Committee did discuss hunting, fishing, and recreation, but they were not considered, and there is nothing incorporated in the values to account for those potential returns.

Senator Towe asked Dr. Watts how he responded to Senator Jergeson's concerns that the recommendation of the ALA Committee does treat unfairly the irrigated land, with the implication that the water costs are not included in its figures. Dr. Watts said there are high cost and low cost operations in irrigation lands and in dry lands. Some areas of the state have to put on huge amounts of fertilizer, and some areas put on very little. The same thing applies to irrigation; some systems are very costly, some are not. The main question is, can the ALA Committee develop a system that is administratively efficient and effective. In terms of the energy and labor costs, the ALA Committee felt that it could come up with documentable means of estimating the costs. In terms of the rest of the costs, the ALA Committee attempted to throw those into the 3/4 crop share. Dr. Watts believes it is appropriate to go ahead and do a study on irrigated lands, but that study needs to balance what can be done as a government bureaucracy versus what is fair.

Senator Towe asked how SB 168 addressed the energy and labor costs. Dr. Watts said the labor costs are directly tied to the type of irrigation system that is installed. For example, if it is flood irrigation, it is \$9/acre more than for a pivot system; wheel lines cost \$4.50/acre more for labor than the cost for pivot. The pivot is the base figure, and pivot labor cost is included in the 3/4 crop share. Dr. Watts said electricity is used to energize over 90% of the irrigation systems in the state, and these irrigation systems must be metered separately from other electrical uses. This separate billing information is documentable and can be provided to the county appraiser. The other 10% of the irrigation systems are natural gas and diesel. These costs are taken off the 1/4 crop share based on the 7-year Olympic average, based on alfalfa lands.

Senator Gage asked Dr. Watts at what stage, and who made the determination, that the end result was going to be taxable value neutral. Dr. Watts said that was discussed early in the process, and he is not certain how it was determined.

Senator Gage asked Dr. Watts if this didn't present some tremendous problems in arriving at the final proposal, and at what stage was the figure of 6.4% finally determined and, in arriving at that neutrality, were there any parts that the ALA Committee decided to adopt and adjust everything else to them. Dr. Watts said the 6.4% results in revenue neutrality, and that the ALA Committee perceived its focus as being more equity among agriculture than it did between agriculture and other areas.

Senator Gage asked Dr. Watts, in arriving at 6.4%, where did the ALA Committee start as investment. Dr. Watts said he looked at the rent/value ratios, took a simple average and a weighted average, and found the beginning range. Those rent/value ratios are in the ALA Committee report (Exhibit No. 2) and are published USDA survey numbers, specific to Montana.

Senator Harp asked Dr. Watts about the energy end of labor costs deducted from the irrigation returns, and if the study showed who the provider of electricity is and the differences in the cost of kilowatts. Dr. Watts said he had data from all companies and cooperatives selling electricity in Montana, and information on what their electrical irrigation revenues were. The ALA Committee did not work on a per kilowatt hour basis; they worked on an aggregate sold to irrigators.

Senator Harp asked if the cost of labor was the actual physical work involved, i.e., moving a line or pivot, and if this is the same issue as what Sen. Jergeson called delivery cost. Dr. Watts said the labor costs the ALA Committee is referring to is the on-farm costs--the cost differential between different types of irrigation systems. The delivery costs are different; for instance, a ditch that is 10 miles long before it gets to the farm's edge. The ALA Committee did not incorporate that into its recommendations. The reason for that is the delivery costs are much more difficult to document. In the case of labor costs, the ALA Committee set up a standard formula that related to a particular type of irrigation.

Senator Towe asked for clarification on some issues. Dr. Watts said the recommended system is fair, so that implies that in the current system, the irrigators are being given a break. On further questioning, Dr. Watts said that dry land crops have been taxed proportionately heavier under the current system than irrigated land. Dr. Watts said some of the differences in percentages Sen. Jergeson spoke about are because of the different grades of irrigated land within the irrigated land class; some are higher, some are lower. It depends on the category of irrigated land involved.

Senator Towe asked Dr. Watts if he is satisfied that the irrigated land will be appraised at a comparable, fair value, to the other agricultural lands. Dr. Watts said that, given the information available, this is the best the ALA Committee can do.

Senator Doherty asked that if the numbers and formulations are designed to provide equity among the different agricultural interests, what numbers could be tweaked in order to depart from the over-all revenue neutrality. Dr. Watts said the easiest way to do it would be to multiply everything by percentages.

Senator Eck asked Dr. Watts about the starting values from the USDA Survey Data, and if the ALA Committee started with those figures and stayed with them. Dr. Watts said the USDA provides ranges within which to operate, and the ALA Committee used this information as a beginning point to develop a cap rate.

Senator Eck asked for clarification of Dr. Watts' answer to Senator Doherty's question on the values and cap rate, and the ALA Committee's revenue neutral formula. Dr. Watts said the ALA Committee calculated the schedules for a variety of parameters -- cap rates, taxable values, prices, etc. The Committee had that information available at the time they were making their decisions, and many adjustments were made in the process, and in particular, in the early runs when the irrigation figures came up so high.

Senator Gage asked Dr. Watts if any attempt was made to look at sale values of various categories of land, compared to taxable values that were finally arrived at. Dr. Watts said the ALA Committee had some market information for different areas of the state, but it was not the hard-core data available in some of the other areas. The information they had was more associated with dry land cropland.

Senator Yellowtail asked Dr. Watts for clarification on the taxable rate of 3.86%; Dr. Watts said this figure was set consistent with commercial and residential property. Sen. Yellowtail further asked what the policy rationale is, or why ag land should be tied in with commercial and residential property as opposed to maintaining a separateness, a distinction, from those values, as in the past. Dr. Watts said there was no basis for justifying a difference, and the ALA Committee felt it should become more consistent with other areas of taxation.

Proponents' Testimony:

Jim Peterson, Montana Stockgrowers Association (MSA), spoke on behalf of the MSA and the Montana Woolgrowers Association, the Montana Grain Growers Association, the Montana Farm Bureau, and the Montana Cattlemen's Association. Mr. Peterson said all of these groups are in favor of SB 168, although they do recognize there are some legitimate and very serious concerns regarding the calculations of water costs. Mr. Peterson said the reality of

the system as it exists today, under the current system, is that the average irrigated acre pays taxes at \$2.64/acre. That represents 2.5% of the land that is taxed agricultural land. A comparable acre of continuously cropped dry land under the current system, without irrigation, pays \$4.84/acre in taxes. That is what the ALA Committee attempted to address over a 2-year period, based on sound, logic, defensible assumptions, using a rental income approach, a capitalization rate, and a 7-year Olympic Average. When they apply those across the board, it ends up that the taxes on irrigated land average an increase of 47%. The taxes on grazing lands go up almost 10%, which represents 71% of all lands taxed in the state. The taxes on continuous crop dryland hay go up in excess of 71%, which represents almost 2% of the agricultural lands that are taxed in the state. Non-irrigated, rotation crop, summer fallow crop, dry land farms, under the ALA Committee proposals, go down 14.7%, and the non-irrigated continuous crops go down 3.19%. Mr. Peterson said the organizations he represent propose a mandated study to address any inequities in the irrigated land portion of the ALA Committee report, and suggest the new committee be made up of all representations of irrigated agricultural lands, but that other classes of agriculture also be represented. In this way, all concerns can be studied over the next two years and reported back to the Legislature at the next general session. The farming/ranching organizations Mr. Peterson represented also support the tax rate of 3.86%, saying that 3.86% is consistent with the commercial and real estate tax structure, that all taxes would be aggregate and no one can get into a divide-and-conquer situation. Mr. Peterson said the organizations he represent also support a 25% per year phase-in amendment.

Rep. Marian Hanson, House District No. 100, a member of the ALA Committee for the past two years, spoke in support of SB 168, and hopes that the Taxation Committee can come up with a compromise everyone can live with.

Ed Lord, President of the Montana Stockgrowers Association, and President of a state water project called Flint Creek Water Users Association in the Philipsburg Valley, spoke in support of SB 168.

Elmer Hanson, White Sulphur Springs, Past President of the Montana Stockgrowers Association (MSA), and a member of the MSA Taxation Committee, spoke in favor of SB 168.

Pat McNulty, Buffalo, Montana, Chairman of the Montana Farm Bureau Taxation Committee, spoke in favor of SB 168, saying the proposals in SB 168 offer the best compromise for fairness that can be reached at this time.

Fred Weiler, County Commissioner of Stillwater County who is a farmer/rancher, said he was in favor of SB 168.

Jim Almond, from Billings, representing the Tax Committee of the Montana Stockgrowers Association, and representing his family ranching operation in Hysham, spoke in support of SB 168. He said he has analyzed the bill and finds it very fair. He supports a study committee being appointed to work out the inequities in the irrigated land taxation.

John E. Witt, Choteau County Commissioner, spoke in favor of SB 168. Mr. Witt also served on the ALA Committee, and said that committee worked very hard trying to address the irrigation problems, and he hopes that issue can be worked out. Mr. Witt believes SB 168 is what is needed right now.

Exhibit No. 4 to these minutes is a written testimony in support of SB 168 by Donald Eliasson of Roundup, Montana.

Opponents' Testimony:

Jay Chamberlain, President of the Montana Water Resources Association (MWRA), spoke in opposition to SB 168, and presented Exhibit No. 5 to these minutes. Mr. Chamberlain said the MWRA has been heavily involved in the ag land re-evaluation process, and feels that the treatment of water costs were not fair to the irrigation community. The MWRA asks that a study be initiated, that the current tax schedules be left in place until the issue is resolved, and that irrigated land tax be increased by 25% and all other ag lands be left at current value until the proper tax levels can be determined.

Jerry Nypen, First Vice Chairman of the Montana Water Resources Association and Manager of Greenfield's Irrigation District of Fairfield, testified as an opponent to SB 168. Mr. Nypen said the ALA Committee recommendations did not reflect actual experiences throughout the irrigation community, including water costs, costs of machinery, etc. Mr. Nypen pointed out that SB 168 also discourages water conservation efforts by direct transfer of the tax burden away from the conservation efforts. Mr. Nypen said the research needed to resolve the extent of taxation on irrigated land is beyond the intended realm of the ALA Committee. The MWRA asks the state to accomplish this task. The MWRA feels a good threshold has to be put in place that can be utilized for the next 30 years.

Max Maddux represented the Chinook Division Irrigation Association and the Alfalfa Irrigation District in Chinook, in opposition to SB 168. Mr. Maddux said his farm has both a public and a private irrigation system that is not affiliated with irrigation districts. They have to maintain their own diversion dam and syphon ditches. These costs are not addressed in the ALA Committee report. Mr. Maddux presented Exhibit 8 to these minutes, and said the ALA Committee accepted recommendations from the irrigating community but did not consider them.

John Venhuizen spoke in opposition to SB 168, and presented Exhibit No. 6 to these minutes which is his written testimony on irrigating costs for his land in the Manhattan area.

Tim Huls, President of the Montana Dairymen's Association, said the Dairymen are very interested in the effects of taxation on irrigated agricultural lands. They have been involved in trying to seek a solution to the water cost issue for quite some time and are disappointed a compromise has not been reached that could be acceptable in order to amend SB 168. The Dairymen agree that a phase-in of 25% does allow an opportunity for a study, and they are emphatic that the study needs to be done with all segments of agriculture and all types of irrigation being represented. Mr. Huls belongs to two irrigation systems that use gravity flow in a high-cost water delivery area and they have no opportunity for the current water cost deductions in the system. Mr. Huls believes those definitely need to be addressed, and the Dairymen would be in favor of SB 168 with those amendments and with a secure water cost study.

Ron Ostberg, a rancher from the Fairfield Bench area North of Great Falls, said he is disappointed that a compromise has not been worked out through SB 170. In relationship to SB 168, some of the items he disagreed with in the ALA Committee's report is the water costs issue, and the fact that they used the rent formula instead of the net return. Some things he thought were ignored in the rent valuation formula are costs of chemicals and herbicides, and grain storage facilities. Mr. Ostberg said energy costs will vary from year to year, depending on the weather conditions. This year, his electrical costs rose 11 1/2 percent, and their long-range study plan shows there will be a 5% to 7% increase every year.

George Paul, representing Farmers Union, said he drove to Helena to support SB 170, and now finds that it may be withdrawn. Mr. Paul said the Farmers Union will support SB 168 with reservations. Mr. Paul said that while the ALA Committee worked hard for two years, they have admitted they did not have time to address the irrigation land taxation issue. Mr. Paul feels the irrigators need to be respected and heard at some point in the process and he hopes the new study committee will have representatives from all types of irrigation.

Ross Peace from Fairfield, an Agronomics Crop Consultant in both irrigated and dry land considerations, presented his written testimony which is Exhibit No. 7 to these minutes. Mr. Peace said crop yield is an interaction between natural environmental factors and management. The natural environmental factors include the chemical and physical properties of soil and climate, and these have been totally ignored in the complete ALA Committee study. Mr. Peace also presented Exhibit No. 9, Productivity Factors and Crop Equivalent Ratings for Soils of Minnesota, which he said is the type of study which should be included in any further considerations of land valuations. Mr. Peace suggested

that the new advisory committee include three persons from the Montana State University staff, one each from the Departments of Climatology, Land Classification, and Economics.

Greg Groepper, representing the Office of Public Instruction (OPI), addressed the policy concerns as they affect taxation in Montana, and the impact on schools. What Concerns the OPI is the policy implication of lowering agricultural land tax rates to account for reappraisal and how it might be applied to other classes of property that are subject to reappraisal, such as residential and commercial land. Another concern expressed by OPI is the precedent being established in SB 168 by phasing-in the values for this class of property but not for the other classes of property. The OPI asked that this Committee take those policy issues into consideration when they consider this bill and other bills, and treat all classes of property in a similar fashion.

John Schutter, owner of Schutter Sheep Farms of Manhattan, said the cost of irrigation must be taken into consideration before determining the taxes on irrigated lands.

Informational Testimony:

None.

Questions From Committee Members and Responses:

Senator Grosfield asked Jay Chamberlain, President of the Montana Water Resources Association (MWRA), if the 25% phase-in over four years, and the MWRA's suggestion of a 25% on irrigation lands, are compatible. Mr. Chamberlain said the MWRA has not looked into the relationship between the two.

Senator Grosfield also asked Mr. Chamberlain about the MWRA's suggestion that irrigated land be increased 25%, and all other lands be left at the present rate, and if MWRA is acknowledging that irrigated lands have not been taxed equitably with other lands. Mr. Chamberlain said the MWRA recognizes that there will be an increase. The problem they have is that the increase proposed is not equitable to all of agriculture. The MWRA's suggestion of a 25% increase in irrigated land is an attempt to recognize that there are problems in SB 168, that some important ingredients are not included in the ALA Committee report, and an extensive study needs to be conducted, and that those who would be affected the most be a part of that new committee.

Senator Grosfield asked Mr. Chamberlain to clarify his statement that there is going to be an increase. Mr. Chamberlain said that the MWRA's proposal of a 25% increase would bring an extra \$1.25 million, which would mean that the MWRA is not recognizing a revenue-neutral situation. The reason the MWRA is doing this is that they are trying to come up with something that

is equitable for the time being, for irrigated agricultural land. Mr. Chamberlain said the reality is that the state is in a desperate situation and taxes are going to go up.

Mr. Chamberlain submitted Exhibit No. 3 to these minutes.

Closing by Sponsor:

Senator Jergeson, in his closing on SB 170, stressed that the testimony heard this morning from people representing irrigated agriculture, and the offer they made, is an indication of how serious the issue is with respect to water costs. This will have to be worked on and resolved over the next two years. Senator Jergeson suggested the 25% phase-in if SB 168 is adopted. Reasons for this suggestion is that it would afford an opportunity for the study to occur; that it would establish a pattern for other classes of property; and that as the incidents of taxation change, either up or down, for any given taxpayer, the 25% per year phase-in gives them an opportunity to adjust their operations to those changes. Senator Jergeson said the tax base of local taxing jurisdictions will change by the adoption of a new method of evaluating agricultural lands. In some counties, the school districts may see increases in revenues; others may see decreases in revenues as a consequence. The local school districts and local governments could utilize the 25% phase-in of the changes so they can adjust their budgets and their operations to meet those changed circumstances.

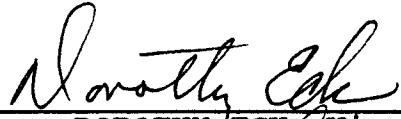
The last remaining issue, the irrigated land water costs, is the one that has caused disunity within agriculture, and it is clear that the new committee would clearly represent all of agriculture, but in particular all phases of irrigated agriculture because of the great diversity. Senator Jergeson said the Legislature needs to guarantee that there will be an absolute determination over the next two years.

Closing by Sponsor:

Senator Beck, in his closing on SB 168, thanked Senator Jergeson for his efforts in addressing some of the problems with the irrigated land issues in SB 168, by presenting SB 170. Senator Beck said that sometimes when the Legislature assesses taxes, the taxes do not come out fair. However, he asks this committee consider the testimonies given today, some of which will result in amendments to SB 168. Senator Beck said the bulk of SB 168 is good, but there is room for study relating to water costs and how they affect the valuations of land. The one thing that was addressed in the ALA Committee study report is the valuation of property, which is a starting point.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:16 a.m.



DOROTHY ECK, Vice-Chair



BONNIE STARK, Secretary

DE/bjs

ROLL CALL

SENATE COMMITTEE TAXATION

DATE 1-22-93

[illegible]

FC8

Attach to each day's minutes

REPORT
OF THE
DEPARTMENT OF REVENUE
AGRICULTURAL LAND ADVISORY COMMITTEE



RECOMMENDATIONS ON AGRICULTURAL
LAND VALUATION IN MONTANA

REPORT OF THE AGRICULTURAL LAND ADVISORY COMMITTEE ON PROPERTY TAXES

- ▶ **History**
- ▶ **Introduction**
- ▶ **Current System**
- ▶ **MCA 15-7-201**
- ▶ **Methodology**
- ▶ **Value of Parameters**
 - **Mandated**
 - **Recommended**
- ▶ **Taxable Rate**
- ▶ **Results**
- ▶ **Miscellaneous Recommendations**

H I S T O R Y

- ▶ **Current system developed in the early 1960s under the Board of Equalization**
- ▶ **Department of Revenue became responsible for classifying agricultural lands in 1973**
- ▶ **Recommended changes proposed in 1985 were rejected**
- ▶ **In 1987, the legislature called for a review of agricultural property taxes**
- ▶ **Governor appointed this committee of 11 for the review**

INTRODUCTION

- ▶ Recommendation criteria
 - 1) Fairness
 - 2) Simplicity
 - 3) Administrative feasibility
 - 4) Stability
- ▶ Neutrality
 - Montana's effective tax rate
 - * Ranks 25th among all states (AK data NA)
 - * Ranks 4th among the eight Mountain states

CONCLUSION:

Montana's total agricultural property taxes are typical of those in region and nation

The Committees recommendation would maintain the current level of total agricultural land taxable value

PROPERTY TAX SYSTEM

Tax Liability =

Assessed value x Tax rate x Mill levy/1000

- ▶ **Assessed value is set for each property class and grade**
- ▶ **Property classes are determined by use e.g. grazing, non-irrigated crop**
- ▶ **Grades are determined by productivity e.g. bushels of wheat/acre**

EXAMPLE (Current System)

Use:	Non-irrigated summer fallow land Class 4
Productivity:	25 bushels/acre (wheat) Grade 1A
Assessed value:	32.22 (from current tax tables)
Tax Rate (Current):	.30
Mill Levy:	300

Tax Liability = 32.22 x .30 x 300/1000 = \$2.90

Taxable Value = Assessed Value x Tax Rate
= 32.22 x .30
= \$9.67

CURRENT SYSTEM **(adopted in 1962)**

- ▶ **7 classes of land**
- ▶ **Several grades within each class**
- ▶ **Within the irrigated classes credit is given for water costs**

MCA 15-7-201 **(1987)**

Value of Agricultural land for tax purposes will be:

- 1) Based on agricultural productivity**
 - 2) Use a capitalization of income approach to valuation**
 - 3) Income shall be based on a 3-year period**
 - 4) Capitalization rate shall be the Federal Land Bank interest rate plus the effective tax rate**
-
- ▶ **The committee does recommend changes in MCA 15-7-201**

M E T H O D O L O G Y H I G H L I G H T S

CAPITALIZATION APPROACH

$$\text{Assessed Value} = \frac{\text{Net Returns}}{\text{Capitalization Rate}}$$

Net returns = return to land

- Cropland based on 1/4 crop share
- Grazing based on 75% of grazing fee
- Irrigation energy & labor deductible from net returns

Capitalization rate = rate of return + tax rate

NET RETURNS

- Mandated: 3 year average
- Recommended: 7 year "Olympic" average

CAPITALIZATION RATE

- Mandated: $\text{FLB} + \text{tax rate} = 11.085 + 2.68 = 13.765\%$
- Recommended: Based on rent to value ratios = 6.4%

TABLE 3 RENT-TO-VALUE RATIOS

Year	Rent/Value (%) ^a		
	Irrigated	Non-Irrigated	Pasture
1986	6.6	8.4	4.1
1987	6.1	10.1	5.0
1988	5.6	7.8	3.3
1989	8.5	8.4	6.3
1990	8.3	8.3	6.8
Average	7.02	8.60	5.1

^aRent-to-value ratios obtained from *Agricultural Resources, Agricultural Land Values and Markets*, United States Department of Agriculture, June 1990.

T A X A B L E R A T E

- ▶ **Current taxable rate of agricultural land = 30%**
- ▶ **Taxable rate on other real property = 3.86%**

RECOMMENDATION

Taxable rate on agricultural property be changed to 3.86%

SUMMARY OF RECOMMENDED AND MANDATED SYSTEM

	<u>RECOMMENDED</u>	<u>MANDATED</u>
Approach	Capitalization of rent	Capitalization of rent
Prices	7-year "Olympic" average	3-year average
Wheat (bu)	\$ 3.89	\$ 3.90
Hay (ton)	55.52	51.06
Grazing fee (AUM)	9.14	9.11
Capitalization rate	Rent to value ratio = 6.4%	Nominal interest rate + Tax rate = 13.765%
Taxable Rate (%)	3.86%	30.00%

PRIMARY RECOMMENDATIONS

- 1) Compute assessed value by capitalizing rent**
 - 2) Rent is 1/4 of crop on cropland**
 - 3) Prices & grazing fees based on 7-year Olympic average**
 - 4) Energy and labor should be deducted from irrigation returns**
 - 5) Water cost categories modified to account for higher water costs**
 - 6) Capitalization rate = 6.4%**
 - 7) Taxable rate = 3.86%**
-
- ▶ Total taxable value of agricultural land would not be changed from the current system**
 - ▶ May have differential impacts on individual tax districts**
 - ▶ Committee encourages consideration as a package not as a "pick & choose" menu**

SENATE TAXATION

EXHIBIT NO. 3

DATE 1-22-93

BILL NO. SB 170

FLOOD IRRIGATION SYSTEMS

	CLASS	GRADE	YIELD	GCV	CURRENT TAXABLE VALUE	ENERGY COST	DITCH COST	AG OMT FLOOD TV	% IN- CREASE	SB170 TV LABOR	% IN- CREASE	SB170 TV COMBO	% IN- CREASE
ACKLEY LAKE W.U. HOBSON, MT	3	3	2.56	\$142	\$7.00	\$12	\$2.40	\$16.00	129%	\$16.52	136%	\$18.57	165%
ALFALFA I.D. CHINOOK, MT	3	5	1.76	\$98	\$5.54	N/A	\$10.50	\$9.31	68%	\$9.61	73%	\$9.14	65%
BUFFALO RAPIDS I.D. TERRY, MT	1	18	4.2	\$233	\$16.40	N/A	\$27.00	\$29.73	81%	\$30.69	87%	\$25.09	53%
BILLINGS BENCH WATER U BILLINGS, MT	1	2	3.7	\$205	\$13.63	\$20	\$14.50	\$25.55	87%	\$26.37	93%	\$24.66	81%
BITTERROOT I.D. HAMILTON, MT	2	5	1.98	\$110	\$4.74	\$18	\$17.00	\$11.15	135%	\$11.51	143%	\$9.02	90%
DALE CAMERYMAN MANHATTAN, MT	2	3.5	2.65	\$147	\$10.40	\$24	\$5.00	N/A	N/A	N/A	N/A	N/A	N/A
DALY DITCHES HAMILTON, MT	2	2	3.33	\$185	\$17.41	\$18	\$12.62	\$22.45	29%	\$23.17	33%	\$22.05	27%
DINSMORE HALL, MT	3	2	2.96	\$164	\$8.54	\$12	\$6.00	N/A	N/A	N/A	N/A	N/A	N/A
EAST BENCH I.D. DILLON, MT	3	4	2.16	\$120	\$5.53	\$20	\$10.25	N/A	N/A	N/A	N/A	N/A	N/A
FARMERS CO-OP CHOTEAU, MT	3	4	2.16	\$120	\$5.53	\$29	\$6.20	\$12.65	129%	\$13.06	136%	\$13.93	152%
FLATHEAD I.D. ST. IGNATIUS, MT	2	5	1.98	\$110	\$4.74	\$10	\$19.00	\$11.15	135%	\$11.51	143%	\$8.39	77%
GLASGOW I.D. GLASGOW, MT	3	3.5	2.36	\$131	\$11.53	\$25	\$12.74	\$14.33	24%	\$14.79	28%	\$13.63	18%
GREENFIELDS I.D. FAIRFIELD, MT	3	4.5	1.96	\$109	\$4.84	\$14	\$16.66	\$10.98	127%	\$11.33	134%	\$8.95	85%
HAMMOND I.D. FORSYTH, MT	1	3	3.2	\$178	\$11.03	\$25	\$12.50	\$21.36	94%	\$22.05	100%	\$20.96	90%
HELENA VALLEY I.D. HELENA, MT	3	5	1.76	\$98	\$6.24	\$20	\$17.96	\$9.31	49%	\$9.61	54%	\$6.82	9%
HYSHAM WATER USERS HYSHAM, MT	1	2	3.7	\$205	\$13.63	\$20	\$16.00	\$25.55	87%	\$26.37	93%	\$24.19	77%
LARRY KAUFFMAN BILLINGS, MT	1	2	3.7	\$205	\$13.63	N/A	\$14.50	\$25.55	87%	\$26.37	93%	\$24.66	81%
LOWER YELLOWSTONE SIDNEY	1	2	3.7	\$205	\$13.63	N/A	\$21.00	\$25.55	87%	\$26.37	93%	\$22.63	66%
PONDERA CO. CANAL CO. VALIER, MT	3	4	2.16	\$120	\$5.53	\$30	\$10.25	\$12.65	129%	\$13.06	136%	\$12.67	129%
RIC HOLDEN GLENDALE, MT	2	18	3.78	\$210	\$14.44	N/A	\$25.00	\$26.22	82%	\$27.06	87%	\$22.08	53%
ROBERT KRAFT LAUREL, MT	1	18	4.2	\$233	\$21.55	N/A	\$6.25	\$29.73	39%	\$30.69	42%	\$31.55	46%
RUBY RIVER BASIN SHERIDAN, MT	3	4	2.16	\$120	\$11.92	\$19	\$3.25	\$12.65	6%	\$13.06	10%	\$14.85	25%
TOSTON IRRIGATION DIST.	2	4	2.43	\$135	\$9.06	\$28	\$11.10	\$14.91	65%	\$15.40	70%	\$14.74	63%

SIDE ROLL SPRINKLER SYSTEMS

	CLASS	GRADE	YIELD	GCV	CURRENT TAXABLE VALUE	ENERGY COST	DITCH COST	AG DMT SPRKL TV	% IN- CREASE	S8170 TV LBR & NRG	% IN- CREASE	S8170 TV COMBO	% IN- CREASE
ACKLEY LAKE W.U. HOBSON, MT	3	3	2.56	\$142	\$7.00	\$12	\$2.40	\$11.48	(64%)	\$11.85	69%	\$16.24	132%
ALFALFA I.D. CHINOOK, MT	3	5	1.76	\$98	\$5.54	N/A	\$10.50	N/A	N/A	N/A	N/A	N/A	N/A
BUFFALO RAPIDS I.D. TERRY, MT	1	18	4.2	\$233	\$16.40	N/A	\$27.00	N/A	N/A	N/A	N/A	N/A	N/A
BILLINGS BENCH WATER U BILLINGS, MT	1	2	3.7	\$205	\$13.63	\$20	\$14.50	\$16.20	(19%)	\$16.72	23%	\$19.83	46%
BITTERROOT I.D. HAMILTON, MT	2	5	1.98	\$110	\$4.74	\$18	\$17.00	\$3.01	(37%)	\$3.10	-35%	\$4.81	2%
DALE CAMERMAN MANHATTAN, MT	2	3.5	2.65	\$147	\$10.40	\$24	\$5.00	\$5.00	(52%)	\$5.16	-50%	\$12.47	20%
DALY DITCHES HAMILTON, MT	2	2	3.33	\$185	\$17.41	\$18	\$12.62	\$14.31	(18%)	\$14.77	-15%	\$17.84	2%
DINSMORE HALL, MT	3	2	2.96	\$164	\$8.54	\$12	\$6.00	\$14.83	(74%)	\$15.31	79%	\$18.57	118%
EAST BENCH I.D. DILLON, MT	3	4	2.16	\$120	\$5.53	\$20	\$10.25	\$3.31	(40%)	\$3.41	-38%	\$7.85	42%
FARMERS CO-OP CHUTEAU, MT	3	4	2.16	\$120	\$5.53	\$29	\$6.20	(\$2.12)	-138%	(\$2.19)	(140%)	\$6.31	14%
FLATHEAD I.D. ST. IGNATIUS, MT	2	5	1.98	\$110	\$4.74	\$10	\$19.00	\$7.83	65%	\$8.08	71%	\$6.68	(41%)
GLASGOW I.D. GLASGOW, MT	3	3.5	2.36	\$131	\$11.53	\$25	\$12.74	\$1.96	(83%)	\$2.03	-82%	\$7.24	-37%
GREENFIELDS I.D. FAIRFIELD, MT	3	4.5	1.96	\$109	\$4.84	\$14	\$16.66	\$5.25	(8%)	\$5.42	12%	\$5.99	24%
HAMMOND I.D. FORSYTH, MT	1	3	3.2	\$178	\$11.03	\$25	\$12.50	\$9.00	(18%)	\$9.29	-16%	\$14.58	32%
HELENA VALLEY I.D. HELENA, MT	3	5	1.76	\$98	\$6.24	\$20	\$17.96	(\$0.04)	(101%)	(\$0.04)	-101%	\$1.99	-68%
HYSHAM WATER USERS HYSHAM, MT	1	2	3.7	\$205	\$13.63	\$20	\$16.00	\$16.20	(19%)	\$16.72	23%	\$19.37	42%
LARRY KAUFFMAN BILLINGS, MT	1	2	3.7	\$205	\$13.63	N/A	\$14.50	N/A	N/A	N/A	N/A	N/A	N/A
LOWER YELLOWSTONE SIDNEY	1	2	3.7	\$205	\$13.63	N/A	\$21.00	N/A	N/A	N/A	N/A	N/A	N/A
PONDERA CO. CANAL CO. VALIER, MT	3	4	2.16	\$120	\$5.53	\$30	\$10.25	(\$2.73)	-149%	(\$2.81)	(151%)	\$4.74	-14%
RIC HOLDEN GLENDALE, MT	2	18	3.78	\$210	\$14.44	N/A	\$25.00	N/A	N/A	N/A	N/A	N/A	N/A
ROBERT KRAFT LAUREL, MT	1	18	4.2	\$233	\$21.55	N/A	\$6.25	N/A	N/A	N/A	N/A	N/A	N/A
RUBY RIVER BASIN SHERIDAN, MT	3	4	2.16	\$120	\$11.92	\$19	\$3.25	\$3.91	(67%)	\$4.03	(66%)	\$10.34	-13%
TOSTON IRRIGATION DIST.	2	4	2.43	\$135	\$9.06	\$28	\$11.10	\$0.74	(92%)	\$0.76	-92%	\$7.43	-18%

CENTER - PIVOT --- SPRINKLER - SYSTEM

	CLASS	GRADE	YIELD	GCV	CURRENT TAXABLE VALUE	ENERGY COST	DITCH COST	AS CMTE SPRINKLR TV	% IN- CREASE	S8170 TV LBR & NRG	% IN- CREASE	S8170 COMBO TV	% IN- CREASE
ACKLEY LAKE W.U. HOBSON, MT	3	3	2.56	\$142	\$7.00	\$12	\$2.40	\$17.81	(154%)	\$18.39	163%	\$19.51	179%
ALFALFA I.D. CHINOOK, MT	3	5	1.76	\$98	\$5.54	N/A	\$10.50						
BUFFALO RAPIDS I.D. TERRY, MT	1	18	4.2	\$233	\$16.40	N/A	\$27.00						
BILLINGS BENCH WATER U BILLINGS, MT	1	2	3.7	\$205	\$13.63	\$20	\$14.50	\$24.94	83%	\$25.75	89%	\$24.35	(79%)
BITTERROOT I.D. HAMILTON, MT	2	5	1.98	\$110	\$4.74	\$18	\$17.00	\$11.15	135%	\$11.51	143%	\$9.02	(90%)
DALE CAMERMAN MANHATTAN, MT	2	3.5	2.65	\$147	\$10.40	\$24	\$5.00	\$14.95	(44%)	\$15.43	48%	\$17.61	69%
DAILY DITCHES HAMILTON, MT	2	2	3.33	\$185	\$17.41	\$18	\$12.62	\$22.45	29%	\$23.17	33%	\$22.05	(27%)
DINSMORE HALL, MT	3	2	2.96	\$164	\$8.54	\$12	\$6.00	\$21.16	(148%)	\$21.84	156%	\$21.84	156%
EAST BENCH I.D. DILLON, MT	3	4	2.16	\$120	\$5.53	\$20	\$10.25	\$12.05	(118%)	\$12.44	125%	\$12.36	124%
FARMERS CO-OP CHOTEAU, MT	3	4	2.16	\$120	\$5.53	\$29	\$6.20	\$9.34	(69%)	\$9.64	74%	\$12.22	121%
FLATHEAD I.D. ST. IGNATIUS, MT	2	5	1.98	\$110	\$4.74	\$10	\$19.00	\$13.56	186%	\$14.00	195%	\$9.64	(103%)
GLASGOW I.D. GLASGOW, MT	3	3.5	2.36	\$131	\$11.53	\$25	\$12.74	\$12.22	(6%)	\$12.61	9%	\$12.54	9%
GREENFIELDS I.D. FAIRFIELD, MT	3	4.5	1.96	\$109	\$4.84	\$14	\$16.66	\$12.19	152%	\$12.58	160%	\$9.57	(98%)
HAYMOND I.D. FORSYTH, MT	1	3	3.2	\$178	\$11.03	\$25	\$12.50	\$19.25	(75%)	\$19.87	80%	\$19.87	80%
HELENA VALLEY I.D. HELENA, MT	3	5	1.76	\$98	\$6.24	\$20	\$17.96	\$8.70	39%	\$8.98	44%	\$6.51	(4%)
HYSHAM WATER USERS HYSHAM, MT	1	2	3.7	\$205	\$13.63	\$20	\$16.00	\$24.94	83%	\$25.75	89%	\$23.88	(75%)
LARRY KAUFFMAN BILLINGS, MT	1	2	3.7	\$205	\$13.63	N/A	\$14.50						
LOWER YELLOWSTONE SIDNEY	1	2	3.7	\$205	\$13.63	N/A	\$21.00						
PONDERA CO. CANAL CO. VALIER, MT	3	4	2.16	\$120	\$5.53	\$30	\$10.25	\$9.04	(63%)	\$9.33	69%	\$10.81	95%
RIC HOLDEN GLENDOVE, MT	2	18	3.78	\$210	\$14.44	N/A	\$25.00						
ROBERT KRAFT LAUREL, MT	1	18	4.2	\$233	\$21.55	N/A	\$6.25						
RUBY RIVER BASIN SHERIDAN, MT	3	4	2.16	\$120	\$11.92	\$19	\$3.25	\$12.35	(4%)	\$12.75	7%	\$14.70	23%
TOSTON IRRIGATION DIST.	2	4	2.43	\$135	\$9.06	\$28	\$11.10	\$11.90	(31%)	\$12.28	36%	\$13.19	46%

EXHIBIT 3DATE 1-22-93SB-170

GRAVITY PIVOT SPRINKLER SYSTEMS

	CLASS	GRADE	YIELD	GCV	CURRENT TAXABLE VALUE	ENERGY COST	DITCH COST	AG DYTE SPRKL TV	% IN- CREASE	S8170 TV LBR & NRG	% IN- CREASE	S8170 TV COMBO	% IN- CREASE
ACKLEY LAKE W.U.	3	3	2.56	\$142	\$7.00	\$12	\$2.40	\$21.43	206%	\$22.12	216%	\$21.37	(205%)
HOBSON, MT													
ALFALFA I.D.	3	5	1.76	\$98	\$5.54	N/A	\$10.50						
CHINOOK, MT													
BUFFALO RAPIDS I.D.	1	18	4.2	\$233	\$16.40	N/A	\$27.00						
TERRY, MT													
BILLINGS BENCH WATER U	1	2	3.7	\$205	\$13.63	\$20	\$14.50	\$30.97	127%	\$31.97	135%	\$27.46	101%
BILLINGS, MT													
BITTERROOT I.D.	2	5	1.98	\$110	\$4.74	\$18	\$17.00	\$16.58	250%	\$17.11	261%	\$11.82	(149%)
HAMILTON, MT													
DALE CAMERMAN	2	3.5	2.65	\$147	\$10.40	\$24	\$5.00	\$22.18	113%	\$22.90	120%	\$21.34	(105%)
MANHATTAN, MT													
DAILY DITCHES	2	2	3.33	\$185	\$17.41	\$18	\$12.62	\$27.88	60%	\$28.78	65%	\$24.85	(43%)
HAMILTON, MT													
DINSMORE	3	2	2.96	\$164	\$8.54	\$12	\$6.00	\$24.78	190%	\$25.58	200%	\$23.71	178%
HALL, MT													
EAST BENCH I.D.	3	4	2.16	\$120	\$5.53	\$20	\$10.25	\$18.08	227%	\$18.67	238%	\$15.47	(180%)
DILLON, MT													
FARMERS CO-OP	3	4	2.16	\$120	\$5.53	\$29	\$6.20	\$18.08	227%	\$18.67	238%	\$16.74	203%
CHUTEAU, MT													
FLATHEAD I.D.	2	5	1.98	\$110	\$4.74	\$10	\$19.00	\$16.58	250%	\$17.11	261%	\$11.20	(135%)
ST. IGNATIUS, MT													
GLASGOW I.D.	3	3.5	2.36	\$131	\$11.53	\$25	\$12.74	\$19.76	71%	\$20.39	77%	\$16.43	42%
GLASGOW, MT													
GREENFIELDS I.D.	3	4.5	1.96	\$109	\$4.84	\$14	\$16.66	\$16.41	239%	\$16.94	250%	\$11.75	(143%)
FAIRFIELD, MT													
HAMMOND I.D.	1	3	3.2	\$178	\$11.03	\$25	\$12.50	\$26.79	143%	\$27.65	151%	\$23.76	115%
FORSYTH, MT													
HELENA VALLEY I.D.	3	5	1.76	\$98	\$6.24	\$20	\$17.96	\$14.73	136%	\$15.21	144%	\$9.62	54%
HELENA, MT													
HYSHAM WATER USERS	1	2	3.7	\$205	\$13.63	\$20	\$16.00	\$30.97	127%	\$31.97	135%	\$26.99	98%
HYSHAM, MT													
LARRY KAUFFMAN	1	2	3.7	\$205	\$13.63	N/A	\$14.50						
BILLINGS, MT													
LOWER YELLOWSTONE	1	2	3.7	\$205	\$13.63	N/A	\$21.00						
SIDNEY													
PONDERA CO. CANAL CO.	3	4	2.16	\$120	\$5.53	\$30	\$10.25	\$18.08	227%	\$18.67	238%	\$15.47	180%
VALIER, MT													
RIC HOLDEN	2	18	3.78	\$210	\$14.44	N/A	\$25.00						
GLENDOVE, MT													
ROBERT KRAFT	1	18	4.2	\$233	\$21.55	N/A	\$6.25						
LAUREL, MT													
RUBY RIVER BASIN	3	4	2.16	\$120	\$11.92	\$19	\$3.25	\$18.08	52%	\$18.67	57%	\$17.65	(48%)
SHERIDAN, MT													
TOSTON IRRIGATION DIST.	2	4	2.43	\$135	\$9.06	\$28	\$11.10	\$20.34	125%	\$21.00	132%	\$17.54	94%

*Senate Tax*EXHIBIT 4DATE 1-22-931 SB-168

January 21, 1993

Senate Taxation Committee
Helena, Mt

Dear Committee Members,

I am submitting this written testimony in support of Senate Bill 168 introduced by Senator Tom Beck. I am a rancher and own 170 acres of irrigated land. I feel the most important concept to be achieved by the legislation being considered by the committee today is to place agricultural lands in the same tax rate class as other real estate. I do not believe the tax increase irrigated lands will receive under Senate bill 168 is material enough not to support the bill.

Sincerely,

Donald J. Tharson

SENATE TAXATION

EXHIBIT NO. 5DATE 1-22-93BILL NO. SB 168

January 22, 1993

TO: Montana Senate Taxation Committee

FROM: Jay Chamberlin, President Montana Water Resource
Association

TESTIMONY: In opposition to Senate Bill 168.

I represent the Montana Water Resource Association whose membership includes several thousand irrigators and the majority of irrigated land in Montana. The association has been heavily involved in the ag land re-evaluation process. A careful review was necessary by our organization since a significant transfer of tax burden from non-irrigated land to irrigated was proposed. Our goal was to be sure that water costs were recognized as assessment values. In our review we concluded that the treatment of water costs were not fair to the irrigation community. We were extremely frustrated in our efforts to convey our concerns to the re-evaluation committee. The committee seemed unwilling to modify their proposal to address our concerns. We believe that the makeup of the committee was such that it did not fairly represent all aspects of irrigated agriculture. The failure to reach an equitable solution has driven wedges within the agricultural community. We feel it is absolutely necessary to initiate a study to resolve the problem of the tax allocation among the ag land classes. We cannot support this bill in its present form, but would like to offer an alternative.

We would like this committee to consider leaving the current tax schedules in place until the issue is resolved, within the next two years. In the interim, we recommend that irrigated land tax be increased by twenty-five percent, and that all other ag lands be left as is. Please regard our offer as a display of sincerity that the proper tax levels be determined once and for all. We believe this is something that irrigated agriculture can endure until a comprehensive study can be completed and a permanent solution reached. A committee would need to be appointed to resolve the problem within the two year time frame. The makeup of this committee must adequately represent all facets of irrigated agriculture.

Thank you for the opportunity to submit testimony on this critical issue.

To the Honorable Taxation Committee

We have a 200 acre farm near Manhattan of which some 165 acres are irrigated, from a 70 ft well, by wheel lines and hand lines, from May 15 to Sept 15. We raise alfalfa, wheat, potatoes and pasture. Estimated labor to move these lines, some times 3 times per day comes to around \$4000. Our pumping costs from the power Co. this year came to \$4876. Repairs came to \$2700. If we add these 3 figures and divide by 165 acres we come up with an irrigation cost of \$70 per acre.

Labor costs were figured at \$8.00 per hour. With the sky rocketing costs of unemployment, Social Security and Workmans Compensation \$8.00 is far to small.

County property tax for lines and sprinklers are not figured in on this and neither are replacement costs.

SENATE TAXATION
EXHIBIT NO. 6
DATE 1-22-93
BILL NO. SB 168

Farm no 2

3 years ago we bought a $\frac{1}{2}$ section of dry land. On this we drilled a 500 ft well and then installed a pump at 400 ft. With this we irrigate 280 acres of wheat, potatoes, and Alfalfa, with 3 pivots and some hand lines. Estimated labor on this system comes to \$3200 and the electrical costs were \$12,678 for the 1992 season. As to the sand problem that we have in the well estimated repairs on this system will come to around \$4000 per year. Once again adding up these 3 figures and dividing by the 280 acre figure we come up with an irrigation cost of \$71. per acre.

We employ 3 men year around and 3 Hi school boys thru the summer plus about 15 part time workers for planting, harvesting, grading, and washing potatoes.

Contrast this with a dry land farm.

Humbly submitted

John Jenkewitz

January 22, 1993

Mr. Chairman and members of the Senate Committee on Taxation

re: Senate Bill 168
Senate Bill 170

SENATE TAXATION
EXHIBIT NO. 7
DATE 1-22-93
BILL NO. SB 168, 170

Both bills "An Act Revising the Method of Valuing Agricultural Lands in Class Three Property for Property Tax Purposes"; etc.

I stand in opposition to both bills as they are currently proposed and suggest the following changes.

Issue number 1. Bill #168 page 4 Lines #21,22, and 23
Bill #170 page 4 Lines # 13,14, and 15

"Land must be assessed at a value that is fairly based on its ability to produce etc.

My point: Crop yield is an interaction between natural environmental factors and management. These natural environmental factors include the chemical and physical properties of soil and the climate. These data are fixed on maps at Montana State University Experiment Station in Bozeman, Mt. but have not been used. How the owner manages these factors should not be part of the tax program. However, the physical and chemical properties and the climate of the land should be part of the evaluation for taxable purposes.

Using this data developed by our Experiment Station for our use should become the basis of the Land Evaluation procedure. It will give a more positive and scientific approach to equilization of large and small parcels of land even though they may be cropped differently. Then production monetary factors can be fixed to the productivity ratings so established.

Issue #2

Several times in the Committee Report and both of these Senate Bills is the mention of net income per acre. Net income is the result of subtracting the expenses from the gross income. This means all of the expenses and not part of them as occurs in the Committee report and Senate Bill #168 and somewhat inferred in Senate Bill #170. This specifically means that costs to get water to the farm whether it is a Company ditch or a private ditch, is a cost of production in addition to all other costs used. Also the realistic labor costs of irrigation as listed below should be used.

Flood irrigation	\$10.50 per acre
Pivot irrigation	1.00 per acre
Wheel line	12.60 per acre

These costs are the result of my own survey of farms and ranches in this area.

Issue #3

Senate Bill #168 page 10 Section 4
Senate Bill #170 page 9 8 thru 10

Scratch line 8 thru 10 and insert the following: The advisory committee shall include three persons from Montana State University staff: one each from the Departments of Climatology, Land Classification and Economics.

Respectfully submitted by ROSS D. PEACE, Agronomic Consultant in Crops and Soils
RR 1 Box 84, Fairfield, Mt. 59436 406-467-2640

P.S. This insert should also be in S.B. 168



Max Maddox

Chinook Division Irrigation Association

SENATE TAXATION

EXHIBIT NO. 8

DATE 1-22-93

BILL NO. SB 168

Delinquent accounts as of Dec 1992

Approx 29 Farms = 13%, with the vast majority of these being 100% Irrigation entities with no dry land farming or grazing in their operations. Back Tax liabilities of 78,000+.

Bureau of Rec. estimates \$1,300⁰⁰ in disposable income on these farms after family living expenses.

we experience water shortages ave 20% w/2 shortage occurring 6 of 10 yrs. On occasion of as much as 50% of demand.

Piping plover adds to the uncertainty of water supply

We are not allowed to use our full water cost of approx \$28, which would significantly reduce the adverse impact

	present	committee	
Class 2	Grade 3	2.23	4.99 up 123%
Grade 4	1.73	4.05	up 135%
Grade 5	1.26	3.11	up 147%

mills
249.360

Amount of + or - change on Class 2 land has the extreme variance of 241%. Can a system in place 31 years be off that much?

If the committee report is accepted as presented the districts ability to accept \$400,000 in state grants is in

New

AG-BU-2199-F
Revised 1992

Return to: J. Nielsen

MINNESOTA EXTENSION SERVICE

UNIVERSITY OF MINNESOTA

AGRICULTURE

SENATE TAXATION

EXHIBIT NO.

DATE

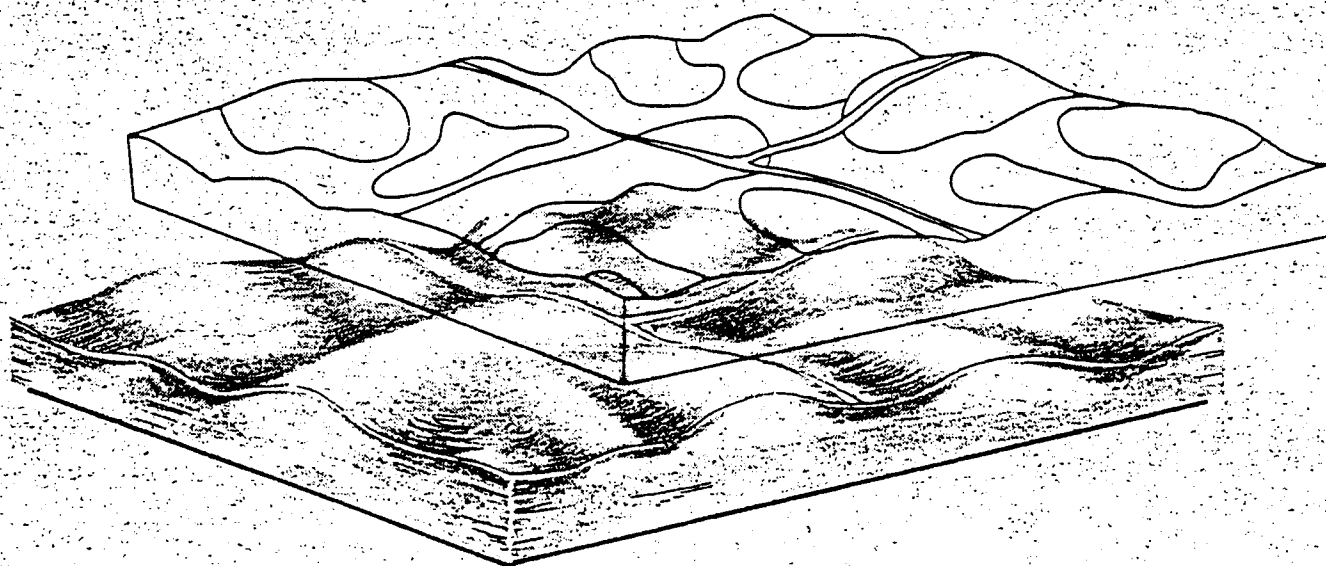
BILL NO.

9

1-22-93

SB 168

Productivity Factors and Crop Equivalent Ratings for Soils of Minnesota



By
James L. Anderson
Pierre C. Robert
Richard H. Rust

The original is stored at the Historical Society at 225 North Roberts Street,
Helena, MT 59620-1201. The phone number is 444-2694.

DATE 1-22-93

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 168, 170

Name	Representing	Bill No.	Check One	
			Support	Oppose
Josh A. Weller	Shillevale Co.	168	X	
Jim Brunner	MARA	170 168		X
John E. Weller	Cherokee Co.	168	X	
Alvin M. Kelsa	FJBC	168		X
Jim Brunner	Self	170		X
Ernie Loopini	Hyscham water users	170		X
John O. Miller	Grilly Ranches	170		
Rich Stephenson	Hyscham water users	170		X
Ernie Loopini	" " "	170		X
Ed. Lord	MSGH	168	X	
Pat Ricci	MSGH	168	X	
Jim Almond	MSGH	168	X	
Elmer Hanson	MSGH	168	X	
Ken Marshall	Self	"		
Teen Patterson	MSGH Tax Cmt.	"	X	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE _____

SENATE COMMITTEE ON _____

BILLS BEING HEARD TODAY: _____

Name	Representing	Bill No.	Check One	
			Support	Oppose
Patrick McNulty	Farm Bureau	SB 168	✓	
DAVE KASTEN	Ranch & Farm	SB 168	X	
Alan Evans	Aggr. Tax Comm	SB 168	X	
Ron Ostberg	Farmer & Ranch	SB 170	X	
ROSS D. PEACE	FARM & RANCH	SB 168 170	AMEND	
Franklin Mang	Mang Ranch	SB 170	AMEND	
Randy Johnson	MT Grain Growers Assn	SB 168	✓	
Franklin P. Schomaker	MT GRAIN GROWER ASSN	SD 168	✓	
Tim Hul	MT DAIRYMEN'S ASSN	SD 168	AMEND	
MERWIN BOXWELL	MONTANA GRAIN GROWERS	SB 168	✓	
Richard Thielges	Farm	SB 168	✓	
Jim Hinson	Montana Sheepman	SB 168	✓	
Rep. Dick Knox	Dist 29	SB 168	✓	
Donnell	MWR A	SB 168 170	AMEND	
Alfred Hays	Hill Co.	SB 168	✓	
DENNIS BURKE	MT TAXPAYERS ASSN	SB 168	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE _____

SENATE COMMITTEE ON _____

BILLS BEING HEARD TODAY: _____

Name	Representing	Bill No.	Check One Support Oppose	
<i>Ray Hovner</i>	<i>Rt. 1 Fairfield MT</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>
<i>Bill Wankel</i>	<i>Wadsworth, Idaho & Ingalls Farm</i>			
<i>Michael Hovner</i>	<i>Forbes MT</i>			
<i>Robert D. Hyllie Jaramenta</i>	<i>Dillon MT</i>	<i>SB 168</i>		
<i>Dale Venhuizen</i>	<i>self-rancher</i>	<i>SB 168</i>		
<i>John L Venhuizen</i>	<i>self-farmer</i>	<i>SB 168 170</i>		
<i>JOHN VENHUIZEN SR</i>	<i>SELF FARMER</i>	<i>SB 168 125</i>		
<i>Ray Van</i>		<i>SB 168</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Fay Stokes</i>	<i>PCC&RC Valier, MT</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>
<i>Ernest Luffick</i>	<i>PCC&RC Unlick MT</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>
<i>DARREL G. BRIESE</i>	<i>MILK RIVER IRR</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>
<i>Lorna Frank</i>	<i>MT. Karm Bureau</i>	<i>SB 168</i>	<i>with oppose</i>	
<i>Alvin Ellis Jr</i>	<i>Red Lodge</i>	<i>SB 168</i>	<input checked="" type="checkbox"/>	
<i>John N Schuttet</i>	<i>Manhattan MT</i>	<i>SB 168</i>	<i>?</i>	<i>?</i>
<i>Bill Latham</i>	<i>Im Farm land</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>
<i>Robert Krause</i>	<i>Teton County Commissioner</i>	<i>SB 168</i>		<input checked="" type="checkbox"/>

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE _____

SENATE COMMITTEE ON _____

BILLS BEING HEARD TODAY: _____

Name	Representing	Bill No.	Check One Support Oppose	
James Krause	Self - Farmer			

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY