

**MINUTES**

**MONTANA SENATE  
54th LEGISLATURE - REGULAR SESSION**

**CONFERENCE COMMITTEE ON SENATE BILL 198**

**Call to Order:** By CHAIRMAN GERRY DEVLIN, on April 10, 1995, at 11:05 a.m.

**ROLL CALL**

**Members Present:**

Sen. Gerry Devlin, Chairman (R)  
Rep. Chase Hibbard, Vice-Chairman (R)  
Sen. Thomas A. "Tom" Beck (R)  
Sen. Greg Jergeson (D)  
Rep. John "Sam" Rose (R)  
Rep. Kenneth Wennemar (D)

**Members Excused:** none.

**Members Absent:** none.

**Staff Present:** Lee Heiman, Legislative Council  
Tina Price, Secretary

**Discussion:** CHAIRMAN GERRY DEVLIN stated the basis for disagreement between the House and Senate was the Research Committee. The Senate had stricken the study from SB 198 and the House reinserted it.

**SEN. TOM BECK** expressed concern regarding changing the method of valuating agricultural land again. He favored continuing with the current system to see if it was successful.

**REP. KENNETH WENNEMAR** informed the committee he had extensive experience with Groundwater Information Systems, (GIS), mapping method. He stated the Department of Revenue had indicated to him their interest in using the GIS system to valuate agricultural land. The Research Committee provided for in SB 198 would research the different surveys done with hydrology, soil, and precipitation and ensure the surveys were done on the same data base system. He elaborated if the surveys were not done on the same data base system, when the overlays for mapping were done, they wouldn't match up. He added when that problem occurs the information must be transferred to another data base, which was expensive, or the particular section of the map must be omitted. He was concerned if the study was not done while the data was being compiled, the opportunity may never be presented again.

**CHAIRMAN DEVLIN** expressed he believed the state was over-appraising and claimed the state wanted to study and appraise constantly in an effort to get down to the gnats eye. He did not believe that was necessary.

**REP. CHASE HIBBARD** he agreed the issue had been studied to death. He recounted the early 60's method of valuating agricultural land and explained since that time every attempt to redo the system turned up elusive results resulting in the appointment of a study committee. He noted in retrospect the only action ever taken was to slightly massage the 1960's model. He added the basic goal had been revenue neutrality so the factors in the formula were simply adjusted to meet the goal. He stated the whole system was vulnerable to political whims. He explained the system was a crop yield model which held two fatal flaws. The first flaw was the yield information was inaccurate. The second flaw was the inaccuracy of the grades of soil in the system. He added the grades of soil had not been looked at since the 70's. He reiterated the system was vulnerable to anyone wishing to make it a project in the legislature or challenge it in court. The study would allow the legislature to take the offensive approach and be aggressive about changing the method for valuing agricultural land and consider moving towards a productivity index geared toward a land's capability of producing. He illuminated the effect of the current system was the more inputs a person puts into production, labor, fertilizer and irrigation, the higher the taxes. He insisted a productivity system would, could and should be constructed to charge taxes based on the productivity of the land based on average management. A productivity system would provide for any elections made to improve the farming method would not increase the tax on the land. He insisted SB 198 provided the opportunity to aggressively take the lead and begin working on a better and more defensible system.

**CHAIRMAN DEVLIN** insisted the only defensible method of taxing agricultural land was going to the actual land sales.

**SEN. GREG JERGESON** reported he had served on the interim committee and the study committee was an item of considerable discussion. The interim committee had pondered introducing two bills, one on the advisory committee and study, and another one for the recommended changes on handling water costs. He reported in the interest of fewer bills in the session, the interim committee had combined the two issues. He expressed favor for the study because the interim committee had discovered many unanswered questions which would make the state vulnerable to lawsuits. He admitted, however, he would not be willing to sacrifice the whole bill over the study committee.

**SEN. BECK** stated he had worked on the previous interim committee. He related the committee had formulated different classes based on rainfall, soil, and length of growing season. Farmers in classes with better conditions have a higher productivity. He insisted based on those facts what could be gained by another

study. **Judy Paynter, Department of Revenue**, commented the weakness in the system was inaccurate yields. She explained the Department used a 20 year average, from 1955-1975, to classify land. She further explained the 20 year average gave the grade and class of the land. The yields of land according to the Department of Revenue's method were 100% below the numbers the Department of Agriculture reported as actual production in Montana. She declared in Granite County the Department of Revenue placed the average at 19 bushels per acre while the Department of Agriculture reported 50 bushels per acre. **SEN. BECK** exclaimed the Department of Agriculture's numbers were erroneous for a dry-land county. **Ms. Paynter** insisted the differences pointed out the disparity in the numbers. She continued the Department of Revenue placed Madison County at 22 bushels/acre while the Department of Agriculture had them at 54 bushels/acre. McCone County was 17 bushels/acre while the Department of Agriculture placed them at 30 bushels/acre. She argued a non-agriculture person or a local government could easily charge the Department of Revenue with improperly performing their duties. She noted a Director within the Department of Revenue could notice the system as flawed and force the Department to reappraise agricultural land; that scenario would result in tremendous increases in taxes on the agricultural producers. She added even local governments or schools could bring suit on the charges of not producing revenue due to unrealistic yields. **Ms. Paynter** concluded there was a number of avenues for the system to be challenged, none of which would result in a positive impact to the agricultural community. She insisted changing the formulas would not remedy the faulty foundation upon which the whole system was based. She stated allowing the study would not necessarily mean the system would have to be changed in two years. The study simply admits the state needs to be researching and planning, the soonest the system could be changed would be 10 years because the GIS system was only in its beginning stages. She claimed if the study were done the Department would have a defense to challenges of the system; they would be openly admitting the flawed system but would also have a planned course of action.

**CHAIRMAN DEVLIN** commented according to the information he had seen, a farmer on one side of the road could be a good farmer and practice timely irrigation, while the farmer on the other side of the road did not and the good farmer would pay higher taxes. How could that be defended? **Ms. Paynter** agreed that was indefensible and added the good farmer could very well file suit. She reported the interim committee had studied the problem and decided it would make more sense to relate objectively to the productive capability of the land instead of taxing the management of the land.

**SEN. BECK** contended the Department of Revenue could implement the soil samples, rain fall and etc, in determining the productive value of land without the study. **Ms. Paynter** reiterated she had stated the Department of Revenue require the yields be adjusted

to reflect a more accurate productivity. She argued, however, the use of realistic yields in conjunction with the formula currently in place would result in an 100% increase in taxes on agricultural land. She explained the formula had been based on unrealistic yields and to use the formula with realistic yields would be disastrous.

**CHAIRMAN DEVLIN** asked when the study, which estimated the yields previously quoted by **Ms. Paynter**, was done by the Department of Agriculture. **Ms. Paynter** replied the Department of Agriculture had performed the study in 1993. She explained typically when doing a study for reappraisal a seven year period was chosen and the highest and lowest years were omitted. She assumed the Department of Agriculture had applied the same method. She claimed consideration had to be given to the possibility of other problems in the agricultural numbers and factors used. She stated at the least, everyone agreed something was wrong with the statistics and as a result the property tax system was not using production levels anywhere near the levels that production was actually occurring. **CHAIRMAN DEVLIN** asked what sources the DOR currently used for information. **Ms. Paynter** replied the DOR used the 20 year average from 1955-1975 for yield. **CHAIRMAN DEVLIN** asked what the source had been for the information 20 years ago. **Ms. Paynter** reported the information had come from individual producers and the ASCS.

**REP. HIBBARD** noted the information used to arrive at the values was outdated and technology had changed. He stated the application of water, timing of water, application of fertilizer, and farming practices had improved causing the yields to be much greater than the yields being utilized. He stated whenever a yield based system was used it was subject to criticism. The whole system was based on a faulty foundation. He suggested it was time to find a better, more defensible system. He concluded there would have to be a change at some point in time.

**REP. SAM ROSE** expressed concern that in the future as demographics changed in the state and more urban people migrated the farm land would be viewed as being valued too low. Eventually a defensible system would be necessary.

**SEN. JERGESON** alleged the Department of Agriculture's numbers would be lower if they had used the method of averaging 7 years instead of using the numbers from just one year. **CHAIRMAN DEVLIN** asked if the study in the previous interim had addressed that situation. **SEN. JERGESON** related the committee had worked on the olympic method of determining price. **CHAIRMAN DEVLIN** said the University was supposed to look at the yields. He asked if there had been input from the University. **SEN. BECK** reported **Myles Watts, Montana State University**, had most of the input on both SB 168 and SB 198. **REP. HIBBARD** alleged **Mr. Watts** would be the first to agree that yield were not assessed correctly. **CHAIRMAN DEVLIN** stated he believed the information was available and the

Department had the ability to find the proper yields. He insisted the study would not accomplish that for the Department.

**SEN. JERGESON** noted a yield based system taxed a farmer based on his farming capabilities. A method should be found to correct that problem. He suggested the soil capability system may be worth studying. **CHAIRMAN DEVLIN** asked what information or results was expected from the committee; SB 198 did not provide specific guidelines or directions for the study. **REP. HIBBARD** read amendment #4 from the House Standing Committee Report. He maintained the place to start would be to look at the technology used in the forest land reevaluation.

**CHAIRMAN DEVLIN** asked if the Department of Revenue was seeking an endorsement of a specific method. **Ms. Paynter** replied the Department was not sure what the correct method should be. She stated the Department was aware of several types of technology available that needed to be considered. The Department was acknowledging there was a problem but they were not claiming to have the answer. She insisted if the Department knew the solution they would not be proposing a study committee they would be proposing implementation of the solution.

*{Tape: 1; Side: B}*

**REP. HIBBARD** explained the study committee would examine the results of the forestry study done to reevaluate forest land. He further explained once the committee had determined the best technology to use for valuation of agricultural land a better system could be built on a better foundation based on productive capabilities instead of yields. He noted there was nothing requiring a new system to be implemented in two years. He stated a productive capabilities base would remove penalties for good management.

**CHAIRMAN DEVLIN** stated he did not support the study. **SEN. BECK** agreed the study was not necessary. He insisted if the right productive values were not being used it was the responsibility of the appraisal department of the state to correct the problem. The actual amount of yield should have been included in the appraised value. The current system used a 20 year average which was probably a realistic average. He alleged if the system had been disturbed in any way it was through production methods; the basics of the soil and water have remained the same. He asked why a person was taxed for wanting to increase production and improve the land. He argued the state should go back to the basics of what a person should be taxed on.

**SEN. JERGESON** stated he favored the study but would not risk the failure of the bill for the study. He suspected the system could be defended through the current appraisal cycle that began in SB 168 and continued in SB 198. He contended sometime in the future, not necessarily outside of agriculture the trend could

come from within the agricultural community, people would begin questioning the burden of taxation based upon management rather than upon the scientific characteristics of the soil as they relate to productivity. He claimed if the agricultural community was to be successful at avoiding court imposed property taxes a study would have to be done. He questioned if there was enough time to wait to do the study.

**REP. ROSE** expressed frustration in trying to find an equitable method to tax agricultural land. He stated he was concerned eventually the urban population would insist the agricultural community be taxed.

**REP. HIBBARD** stated the bottom line was the study was the right thing to do to because of the state's vulnerability. However, he stated he was not willing to risk the bill over the study issue. He informed the committee that returning in a successive session to request a study committee would require specifying the flaws in the system to demonstrate the need for the study. He added demonstrating the flaws of the system would involve a risk as the information could assist any challenges made on the system.

**REP. WENNEMAR** stated he would give up the study committee rather than risk the bill. He reported the House Taxation Committee had already began questioning the fairness of taxation of agricultural land. **CHAIRMAN DEVLIN** maintained a challenge could be made regardless of the action the legislature takes because of the use of a productivity system rather than a cash based system. He added all other property was appraised at market value and regardless of how much the issue was studied it would be impossible to defend.

**Motion/Vote:** **SEN. BECK MADE THE MOTION TO RECEDE THE HOUSE AMENDMENT APPLYING TO THE STUDY AND ACCEDE TO THE OMISSION OF THE CONTINGENT VOIDNESS CLAUSE. The motion CARRIED UNANIMOUSLY.**

**Motion/Vote:** **SEN. BECK MADE THE MOTION THE COMMITTEE CONCUR IN THE CONFERENCE COMMITTEE REPORT. The motion CARRIED UNANIMOUSLY.**

ADJOURNMENT

Adjournment: CHAIRMAN GERRY DEVLIN adjourned the meeting at  
11:50 a.m.

  
\_\_\_\_\_  
SENATOR GERRY DEVLIN, Chairman

  
\_\_\_\_\_  
TINA PRICE, Secretary

GD/tp

Conference Committee  
on SB 198  
Report No.1, April 10, 1995

Page 1 of 2

Mr. President and Mr. Speaker:

We, your Conference Committee on SB 198, met and considered:

The Committee Report of the House Standing Committee on  
Taxation dated March 20, 1995

We recommend that SB 198 (reference copy - salmon) be further  
amended as follows:

1. Title, lines 10 and 11.  
Strike: "ESTABLISHING" on line 10 through "LAND;" on line 11
2. Title, line 12.  
Strike: "1"  
Insert: "AND"
3. Title, lines 13 and 14.  
Strike: "AND" on line 13 through "DATE" on line 14
4. Page 6, line 19 through page 7, line 9.  
Strike: section 4 in its entirety  
Renumber: subsequent sections
5. Page 7, line 19.  
Strike: "4,"  
Strike: "7, 8"  
Insert: "6"
6. Page 7, line 22.  
Strike: "5"  
Insert: "4"
7. Page 7, line 30.  
Strike: section 8 in its entirety

And that this Conference Committee report be adopted.

For the Senate:

Devlin

Chair

Beck

Jergenson

ADOPT

REJECT

For the House:

Hibbard

Chair

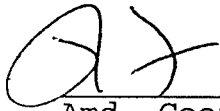
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April 10, 1995  
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Amd. Coord.



Sec. of Senate



## HOUSE STANDING COMMITTEE REPORT

March 20, 1995

Page 1 of 2

Mr. Speaker: We, the committee on Taxation report that Senate Bill 198 (third reading copy -- blue) be concurred in as amended.

Signed: \_\_\_\_\_

*Chase Hibbard*  
Chase Hibbard, Chair

Carried by: Rep. Hibbard

And, that such amendments read:

1. Title, line 10.

Following: "~~LAND,~~"

Insert: "ESTABLISHING AN ADVISORY COMMITTEE TO STUDY METHODS FOR  
USING SOIL CAPABILITY FOR THE VALUATION OF AGRICULTURAL  
LAND;"

2. Title, line 11.

Strike: "AND"

Insert: ", "

3. Title, line 12.

Strike: "AND A CONTINGENT VOIDNESS PROVISION"

Insert: ", AND A TERMINATION DATE"

4. Page 6, line 16.

Insert: "NEW SECTION. Section 4. Advisory committee -- study of  
soil capability for valuation of agricultural land. (1)  
The governor shall appoint an advisory committee to study  
methods for determining the productive capability of soils  
and methods for using the productive capability of soils for  
the valuation of agricultural lands for property tax  
purposes. The advisory committee shall also consider the  
extent to which economic factors, such as land use and  
management practices, influence the valuation of

SB 198

ds.  
Committee Vote:

agricultural land for property tax purposes.

(2) The membership of the committee must include persons who are knowledgeable in the following areas:

- (a) principles and practices of property taxation;
- (b) irrigated agricultural practices and production;
- (c) nonirrigated agricultural practices and production;
- (d) livestock grazing practices and production;
- (e) agricultural management practices; and
- (f) financial management.

(3) The committee must also include two members representing Montana state university. One member must be knowledgeable in soil characteristics as these characteristics relate to the productivity of agricultural land. The other member must be knowledgeable in agricultural economics.

(4) The committee shall report its findings and recommendations to the department of revenue by July 1, 1996."  
Renumber: subsequent sections

5. Page 6, lines 19 through 23.  
Strike: section 5 in its entirety  
Renumber: subsequent sections

6. Page 6, line 25.  
Strike: "5, AND"  
Insert: "4,"  
Following: "7"  
Insert: ", 8,"

7. Page 6, line 28.  
Strike: "4"  
Insert: "5"

8. Page 7.  
Following: line 4  
Insert: "NEW SECTION. Section 8. Termination. [Section 4]  
terminates July 1, 1997."

-END-

## SENATE BILL NO. 198

INTRODUCED BY JERGESON, STORY, HIBBARD, TOEWS, MCCANN

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE METHOD OF VALUING IRRIGATED AGRICULTURAL LAND; ESTABLISHING A BASE WATER COST FOR COMPUTING NET INCOME FROM IRRIGATED LAND; ESTABLISHING AN ENERGY COST BASE YEAR FOR IRRIGATED LAND; LIMITING ALLOWABLE WATER COSTS TO A MAXIMUM OF \$35 PER ACRE OF IRRIGATED LAND; REVISING THE PHASEIN OF THE TAXABLE VALUE OF AGRICULTURAL LAND; ~~ESTABLISHING AN ADVISORY COMMITTEE TO STUDY METHODS FOR USING SOIL CAPABILITY FOR THE VALUATION OF AGRICULTURAL LAND; ESTABLISHING AN ADVISORY COMMITTEE TO STUDY METHODS FOR USING SOIL CAPABILITY FOR THE VALUATION OF AGRICULTURAL LAND;~~ AMENDING SECTIONS 15-7-201 AND 15-7-221, MCA; REPEALING SECTION 15-7-221, MCA; AND PROVIDING EFFECTIVE DATES, ~~AND~~ APPLICABILITY DATES, ~~AND A TERMINATION DATE AND A CONTINGENT VOIDNESS PROVISION, AND~~ A TERMINATION DATE."

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

Section 1. Section 15-7-201, MCA, is amended to read:

"15-7-201. ~~(Applicable Temporary -- applicable to 1994 1995 AND 1996 and later land valuation schedules)~~ Legislative intent -- value of agricultural property. (1) Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

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

(3) Within each class, land must be subclassified by production categories. Production categories are determined from the productive capacity of the land based on yield.

(4) In computing the agricultural land valuation schedules to take effect ~~on January 1, 1994, and, thereafter, on the effective date~~ when each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the

1 formula  $V = I/R$  where:

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

4 (b) I is the per-acre net income of agricultural land in each land use and production category and  
5 is to be determined as provided in subsection (5); and

6 (c) R is the capitalization rate and is equal to 6.4%. This capitalization rate must remain in effect  
7 until new agricultural land valuation schedules are computed as required by law.

8 (5) (a) Net income must be determined separately in each land use based on production categories.

9 (b) Net income must be based on commodity price data, grazing fees, crop share arrangements,  
10 and water cost data for the base period, as follows:

11 (i) Commodity price data and grazing fees for the base period must be obtained from the Montana  
12 Agricultural Statistics and from the Montana crop and livestock reporting service.

13 (ii) Crop share arrangements are based on the rental value of the land and average landowner costs.

14 (iii) Allowable water costs consist only of the per-acre labor costs and energy costs of irrigation,  
15 and a base water cost of \$5.50 for each acre of irrigated land. Total allowable water costs may not exceed  
16 \$35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

17 (A) Labor costs are zero for pivot sprinkler irrigation systems; \$4.50 an acre for tow lines, side roll,  
18 and lateral sprinkler irrigation systems; and \$9 an acre for hand-moved and flood irrigation systems.

19 (B) Energy costs must be based on per-acre energy costs incurred in 1992. By July 1, 1993, an  
20 owner of irrigated land shall provide the department, on a form prescribed by the department, with energy  
21 costs incurred in 1992. In the event that no energy costs were incurred in 1992, the owner of irrigated  
22 land shall provide the department with energy costs from the most recent year available. The department  
23 shall adjust the most recent year's energy costs to reflect costs in 1992.

24 (c) The base crop for valuation of irrigated land is alfalfa hay, adjusted to 80% of sales price, and  
25 the base crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is  
26 the average grazing fee for a 1,000-pound animal.

27 (d) The base period used to determine net income must be the most recent 7 years for which data  
28 is available prior to the date the revaluation cycle ends. Commodity price data and grazing fees referred  
29 to in subsection (5)(b) must be averaged for the 7-year period, but the average must exclude the lowest  
30 and highest commodity prices or grazing fees in the period.

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

(7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data required by subsections (4) and (5). The advisory committee shall include one member of the Montana state university, college of agriculture, staff. The advisory committee shall recommend agricultural land valuation schedules to the department. With respect to irrigated land, the value of irrigated land may not be below the value that the land would have if it were not irrigated."

**Section 2.** Section 15-7-201, MCA, is amended to read:

**"15-7-201. (Applicable to ~~1994~~ 1997 and later land valuation schedules) Legislative intent -- value of agricultural property.** (1) Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

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

(3) Within each class, land must be subclassified by production categories. Production categories are determined from the productive capacity of the land based on yield.

(4) In computing the agricultural land valuation schedules to take effect ~~on January 1, 1994, and, thereafter,~~ on the effective date when each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the formula  $V = I/R$  where:

(a) V is the per-acre productive capacity value of agricultural land in each 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 as provided in subsection (5); and

(c) R is the capitalization rate and is equal to 6.4%. This capitalization rate must remain in effect until new agricultural land valuation schedules are ~~computed as required by law~~ adopted by the department, after considering the recommendations from the advisory committee as provided in subsection (7).

1 (5) (a) Net income must be determined separately in each land use based on production categories.

2 (b) Net income must be based on commodity price data, grazing fees, crop share arrangements,  
3 and water cost data for the base period, as follows:

4 (i) Commodity price data and grazing fees for the base period must be obtained from the Montana  
5 Agricultural Statistics and from the Montana crop and livestock reporting service.

6 (ii) Crop share arrangements are based on the rental value of the land and average landowner costs.

7 (iii) Allowable water costs consist only of the per-acre labor costs and energy costs of irrigation,  
8 and a base water cost of \$5.50 for each acre of irrigated land. Total allowable water costs may not exceed  
9 \$35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

10 (A) Labor costs are zero for pivot sprinkler irrigation systems; \$4.50 an acre for tow lines, side roll,  
11 and lateral sprinkler irrigation systems; and \$9 an acre for hand-moved and flood irrigation systems.

12 (B) Energy costs must be based on per-acre energy costs incurred in ~~1992~~ the energy cost base  
13 year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5).

14 By July 1, ~~1993~~, of the year following the energy cost base year, an owner of irrigated land shall provide  
15 the department, on a form prescribed by the department, with energy costs incurred in ~~1992~~ that energy  
16 cost base year. In the event that no energy costs were incurred in ~~1992~~ the energy cost base year, the  
17 owner of irrigated land shall provide the department with energy costs from the most recent year available.  
18 The department shall adjust the most recent year's energy costs to reflect costs in ~~1992~~ the energy cost  
19 base year.

20 (c) The base crop for valuation of irrigated land is alfalfa hay, adjusted to 80% of sales price, and  
21 the base crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is  
22 the average grazing fee for a 1,000-pound animal.

23 (d) The base period used to determine net income must be the most recent 7 years for which data  
24 is available prior to the date the revaluation cycle ends. Commodity price data and grazing fees referred  
25 to in subsection (5)(b) must be averaged for the 7-year period, but the average must exclude the lowest  
26 and highest commodity prices or grazing fees in the period.

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

29 (7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and  
30 agricultural economics to compile and review the data required by subsections (4) and (5). The advisory

1 committee shall include one member of the Montana state university, college of agriculture, staff. The  
2 advisory committee shall recommend agricultural land valuation schedules to the department. With respect  
3 to irrigated land, the value of irrigated land may not be below the value that the land would have if it were  
4 not irrigated."

5  
6 **Section 3:** Section 15-7-221, MCA, is amended to read:

7 **"15-7-221. Phase in of the taxable value of agricultural land.** The increase or decrease in taxable  
8 value of agricultural land resulting from the change in the method of determining productive capacity value  
9 under 15-7-201 must be phased in beginning January 1, ~~1994~~ 1995, as follows:

10 (1) For the year beginning January 1, ~~1994~~ 1995, and ending December 31, ~~1994~~ 1995, the  
11 taxable value of agricultural land in each land use and production category must increase or decrease from  
12 the December 31, ~~1993~~ 1994, value by ~~25%~~ one-third of the difference between the product of the  
13 productive capacity value of agricultural land for ~~1994~~ 1995 determined under 15-7-201 times the class  
14 three tax rate and the taxable value of agricultural land as of December 31, ~~1993~~ 1994.

15 (2) For the year beginning January 1, ~~1995~~ 1996, and ending December 31, ~~1995~~ 1996, the  
16 taxable value of agricultural land in each land use and production category must increase or decrease from  
17 the December 31, ~~1993~~ 1994, value by ~~50%~~ two-thirds of the difference between the product of the  
18 productive capacity value of agricultural land for ~~1994~~ 1995 determined under 15-7-201 times the class  
19 three tax rate and the taxable value of agricultural land as of December 31, ~~1993~~ 1994.

20 (3) ~~For the year beginning January 1, 1996, and ending December 31, 1996, the taxable value of~~  
21 ~~agricultural land in each land use and production category must increase or decrease from the December~~  
22 ~~31, 1993, value by 75% of the difference between the product of the productive capacity value of~~  
23 ~~agricultural land for 1994 determined under 15-7-201 times the class three tax rate and the taxable value~~  
24 ~~of agricultural land as of December 31, 1993.~~

25 (4) Beginning January 1, 1997, the taxable value of agricultural land in each land use and  
26 production category is equal to 100% of the productive capacity value of agricultural land determined under  
27 15-7-201 times the class three tax rate."

28  
29 ~~NEW SECTION. Section 4. Advisory committee study of soil capability for valuation of~~  
30 ~~agricultural land. (1) The governor shall appoint an advisory committee to study methods for determining~~



1 ~~the productive capability of soils and methods for using the productive capability of soils for the valuation~~  
2 ~~of agricultural lands for property tax purposes. The advisory committee shall also consider the extent to~~  
3 ~~which economic factors, such as land use and management practices, influence the valuation of agricultural~~  
4 ~~land for property tax purposes.~~

5 ~~(2) The membership of the committee must include persons who are knowledgeable in the~~  
6 ~~following areas:~~

7 ~~(a) principles and practices of property taxation;~~

8 ~~(b) irrigated agricultural practices and production;~~

9 ~~(c) nonirrigated agricultural practices and production;~~

10 ~~(d) livestock grazing practices and production;~~

11 ~~(e) agricultural management practices; and~~

12 ~~(f) financial management.~~

13 ~~(3) The committee must also include two members representing Montana state university. One~~  
14 ~~member must be knowledgeable in soil characteristics as these characteristics relate to the productivity of~~  
15 ~~agricultural land. The other member must be knowledgeable in agricultural economies.~~

16 ~~(4) The committee shall report its findings and recommendations to the department of revenue by~~  
17 ~~July 1, 1996.~~

18  
19 NEW SECTION. SECTION 4. ADVISORY COMMITTEE -- STUDY OF SOIL CAPABILITY FOR  
20 VALUATION OF AGRICULTURAL LAND. (1) THE GOVERNOR SHALL APPOINT AN ADVISORY  
21 COMMITTEE TO STUDY METHODS FOR DETERMINING THE PRODUCTIVE CAPABILITY OF SOILS AND  
22 METHODS FOR USING THE PRODUCTIVE CAPABILITY OF SOILS FOR THE VALUATION OF  
23 AGRICULTURAL LANDS FOR PROPERTY TAX PURPOSES. THE ADVISORY COMMITTEE SHALL ALSO  
24 CONSIDER THE EXTENT TO WHICH ECONOMIC FACTORS, SUCH AS LAND USE AND MANAGEMENT  
25 PRACTICES, INFLUENCE THE VALUATION OF AGRICULTURAL LAND FOR PROPERTY TAX PURPOSES.

26 (2) THE MEMBERSHIP OF THE COMMITTEE MUST INCLUDE PERSONS WHO ARE  
27 KNOWLEDGEABLE IN THE FOLLOWING AREAS:

28 (A) PRINCIPLES AND PRACTICES OF PROPERTY TAXATION;

29 (B) IRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;

30 (C) NONIRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;

1 (D) LIVESTOCK GRAZING PRACTICES AND PRODUCTION;

2 (E) AGRICULTURAL MANAGEMENT PRACTICES; AND

3 (F) FINANCIAL MANAGEMENT.

4 (3) THE COMMITTEE MUST ALSO INCLUDE TWO MEMBERS REPRESENTING MONTANA STATE  
5 UNIVERSITY. ONE MEMBER MUST BE KNOWLEDGEABLE IN SOIL CHARACTERISTICS AS THESE  
6 CHARACTERISTICS RELATE TO THE PRODUCTIVITY OF AGRICULTURAL LAND. THE OTHER MEMBER  
7 MUST BE KNOWLEDGEABLE IN AGRICULTURAL ECONOMICS.

8 (4) THE COMMITTEE SHALL REPORT ITS FINDINGS AND RECOMMENDATIONS TO THE  
9 DEPARTMENT OF REVENUE BY JULY 1, 1996.

10  
11 NEW SECTION. Section 5. Repealer. Section 15-7-221, MCA, is repealed.

12  
13 NEW SECTION. SECTION 5. CONTINGENT VOIDNESS. IN ORDER TO MAINTAIN A BALANCED  
14 BUDGET, BECAUSE [THIS ACT] REDUCES REVENUE, IT MAY NOT BE TRANSMITTED TO THE GOVERNOR  
15 UNLESS A CORRESPONDING IDENTIFIED REDUCTION IN SPENDING IS CONTAINED IN HOUSE BILL NO.  
16 2. IF A CORRESPONDING IDENTIFIED REDUCTION IN SPENDING IS NOT CONTAINED IN HOUSE BILL NO.  
17 2, [THIS ACT] IS VOID.

18  
19 NEW SECTION. Section 6. Effective dates. (1) [Sections 1, 3, ~~5~~, AND ~~4~~, 4 ~~6~~ 7, 8, and this  
20 section] are effective on passage and approval.

21 (2) [Section 2] is effective January 1, 1997.

22 (3) [Section ~~5~~ 4 5] is effective January 1, 1998.

23  
24 NEW SECTION. Section 7. ~~Retroactive applicability~~ APPLICABILITY. (1) [Sections 1 and 3] apply  
25 retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1994.

26 (2) [~~section~~ SECTION 2] applies to tax years beginning after December 31, 1996.

27  
28 NEW SECTION. Section 8. Termination. [Section 4] terminates July 1, 1997.

29  
30 NEW SECTION. SECTION 8. TERMINATION. [SECTION 4] TERMINATES JULY 1, 1997.

-END-