

HOUSE BILL NO. 168

INTRODUCED BY DONALDSON, SWITZER, ASAY, KELLER, ELLISON,
KOEHNKE, HAYNE, HOLLIDAY, NEUMAN

IN THE HOUSE

January 14, 1985	Introduced and referred to Committee on Taxation.
January 15, 1985	Fiscal Note requested.
January 21, 1985	Fiscal Note returned.
February 7, 1985	Committee recommend bill do pass as amended. Report adopted.
February 8, 1985	Bill printed and placed on members' desks.
February 9, 1985	Second reading, do pass.
February 11, 1985	Considered correctly engrossed.
February 12, 1985	Third reading, passed. Transmitted to Senate.

IN THE SENATE

February 13, 1985	Introduced and referred to Committee on Taxation.
April 10, 1985	Committee recommend bill be concurrred in as amended. Report adopted.
April 12, 1985	Second reading, concurrred in.
April 17, 1985	Third reading, concurrred in. Ayes, 41; Noes, 8. Returned to House with amendments.

IN THE HOUSE

April 18, 1985

Received from Senate.

April 19, 1985

Second reading, pass
consideration.

Second reading, amendments
concurred in.

April 22, 1985

Third reading, amendments
concurred in.

Sent to enrolling.

Reported correctly enrolled.

1 HOUSE BILL NO. 168
 2 INTRODUCED BY Richard J. ...
 3 ...
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THE
 5 DEPARTMENT OF REVENUE TO USE A METHOD OF VALUATION BASED ON
 6 CAPITALIZATION OF NET INCOME FOR VALUING AGRICULTURAL LANDS
 7 AFTER JANUARY 1, 1986; AMENDING SECTION 15-7-201, MCA; AND
 8 PROVIDING AN APPLICABILITY DATE AND A DELAYED EFFECTIVE
 9 DATE."
 10

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

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

13 "15-7-201. (Effective January 1, 1986) Legislative
 14 intent -- value of agricultural property. (1) Since the
 15 market value of many agricultural properties is based upon
 16 speculative purchases which do not reflect the productive
 17 capability of agricultural land, it is the legislative
 18 intent that bona fide agricultural properties shall be
 19 classified and assessed at a value that is exclusive of
 20 values attributed to urban influences or speculative
 21 purposes.

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

25 (3) Within each class, land shall be assessed at a

1 value that is fairly based on its ability-to-produce, taking
 2 into consideration the classification system in existence on
 3 January 1, 1986; provided, however, the department may
 4 consolidate tillable irrigated land classes. With relation
 5 to irrigated land, water costs shall be taken into
 6 consideration, except at no time may the resulting value of
 7 irrigated land be reduced below the value such land would
 8 have if it were not irrigated productive capacity.

9 (4) Capital costs such as improved water distribution,
 10 fertilizers, and land shaping that increase productivity
 11 shall not be used in determining assessed values. For the
 12 revaluation cycle beginning after January 1, 1986, the
 13 department of revenue shall determine the productive
 14 capacity value of all agricultural lands using a method of
 15 appraisal based on capitalization of net income.

16 (5) Net income shall be:

17 (a) calculated for each year of a base period, which
 18 is the most recent 3-year period for which data are
 19 available, prior to a revaluation of property as provided in
 20 15-7-111; and

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

25 (6) Net income shall be determined separately for



1 lands in irrigated use, nonirrigated use, and grazing use
2 and shall be calculated for each use based on the production
3 level comprising the greatest number of acres in each use.

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

9 (8) The effective tax rate shall be calculated by the
10 department for each year of the base period by dividing the
11 total dollar value of all property taxes levied in the state
12 by the total taxable value of all taxable property in the
13 state."

14 NEW SECTION. Section 2. Extension of authority. Any
15 existing authority of the department of revenue to make
16 rules on the subject of the provisions of this act is
17 extended to the provisions of this act.

18 NEW SECTION. Section 3. Effective date --
19 applicability date. This act is effective January 1, 1986,
20 and applies to any revaluation of property as provided in
21 15-7-111 after January 1, 1986.

-End-

STATE OF MONTANA
FISCAL NOTE

REQUEST NO. FNN104-85

Form BD-15

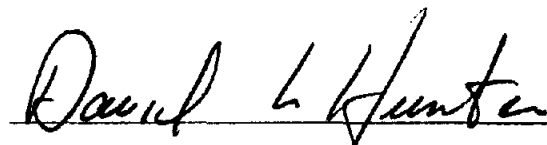
In compliance with a written request received January 15, 19 85, there is hereby submitted a Fiscal Note for House Bill 168 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to require the Department of Revenue to use a method of valuation based on capitalization of net income for valuing agricultural lands after January 1, 1986, and providing an effective date and a delayed applicability date.

FISCAL IMPACT:

The proposal will not affect agricultural land values for the current reappraisal cycle and therefore will have no fiscal impact until 1991. The bill offers the Department clear guidance on the appropriate methodology for updating agricultural land values for the next reappraisal cycle. The bill would mandate the use of the income approach for valuing timber land unless agricultural and timber lands are put in separate classes. This may have a large impact on timber values.



BUDGET DIRECTOR
Office of Budget and Program Planning

Date: JAN 21, 1985

APPROVED BY COMMITTEE
ON TAXATION

HOUSE BILL NO. 168

INTRODUCED BY DONALDSON, SWITZER, ASAY, KELLER,

ELLISON, KOEHNKE, HAYNE, HOLLIDAY, NEUMAN

A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THE DEPARTMENT OF REVENUE TO USE A METHOD OF VALUATION BASED ON CAPITALIZATION OF NET INCOME FOR VALUING AGRICULTURAL LANDS AFTER JANUARY 1, 1986; AMENDING SECTION 15-7-201, MCA; AND PROVIDING AN APPLICABILITY DATE AND A DELAYED EFFECTIVE 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. (Effective January 1, 1986) Legislative intent -- value of agricultural property. (1) Since the market value of many agricultural properties is based upon speculative purchases which do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties shall be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

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

(3) Within each class, land shall be assessed at a value that is fairly based on its ability-to-produce, taking into consideration the classification system in existence on January 1, 1986; provided, however, the department may consolidate tillable irrigated land classes. With relation to irrigated land, water costs shall be taken into consideration, except at no time may the resulting value of irrigated land be reduced below the value such land would have if it were not irrigated productive capacity.

(4) Capital costs such as improved water distribution, fertilizer, and land shaping that increase productivity shall not be used in determining assessed values. For the revaluation cycle beginning after January 1, 1986, the department of revenue shall determine the productive capacity value of all agricultural lands using a method of appraisal based on capitalization of net income. THE FORMULA $V = I/R$ WHERE:

(A) V IS THE PER-ACRE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY;

(B) I IS THE PER-ACRE NET INCOME OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY AND IS TO BE DETERMINED BY THE DEPARTMENT USING THE FORMULA $I = (P - C) U$ WHERE:

(I) I IS THE PER-ACRE NET INCOME;

(II) P IS THE PER-UNIT PRICE OF THE COMMODITY BEING

1 PRODUCED;
 2 (III) C IS THE PER-UNIT PRODUCTION COST OF THE
 3 COMMODITY BEING PRODUCED; AND
 4 (IV) U IS THE YIELD IN UNITS PER ACRE; AND
 5 (C) R IS THE CAPITALIZATION RATE TO BE DETERMINED BY
 6 THE DEPARTMENT AS PROVIDED IN SUBSECTION (11).
 7 (5) Net income shall be:
 8 (a) calculated for each year of a base period, which
 9 is the most recent 3-year period for which data are
 10 available, prior to a revaluation of property as provided in
 11 15-7-111; and
 12 (b) based on commodity price and production cost data
 13 for the base period from such sources as may be considered
 14 appropriate by the department, which sources may SHALL
 15 include the Montana state university department---of
 16 agriculture.
 17 (5) MONTANA STATE UNIVERSITY SHALL ANNUALLY COMPILE
 18 COMMODITY PRICE DATA REFLECTING THE AVERAGE PRICES RECEIVED
 19 PER UNIT OF MEASURE BY MONTANA FARMERS AND RANCHERS. SUCH
 20 DATA SHALL BE OBTAINED FROM ALL GEOGRAPHICAL AREAS OF THE
 21 STATE. COMMODITY PRICES SHALL INCLUDE BUT NOT BE LIMITED TO
 22 WHEAT, BARLEY, ALFALFA HAY, GRASS HAY, CORN FOR GRAIN, CORN
 23 FOR SILAGE, SUGAR BEETS, DRY BEANS, POTATOES, CATTLE, AND
 24 SHEEP. SUCH COMMODITY PRICES SHALL INCLUDE GOVERNMENT
 25 PAYMENTS CALCULATED PER UNIT OF MEASURE. TYPICAL RENTAL

1 ARRANGEMENTS SHALL BE COMPILED FOR EACH USE.
 2 (7) MONTANA STATE UNIVERSITY SHALL ANNUALLY COMPILE
 3 ADEQUATE PRODUCTION COST DATA REFLECTING AVERAGE COSTS PER
 4 UNIT OF MEASURE PAID BY MONTANA FARMERS AND RANCHERS. SUCH
 5 DATA SHALL BE OBTAINED FROM ALL GEOGRAPHICAL AREAS OF THE
 6 STATE. SUCH PRODUCTION COSTS SHALL INCLUDE BUT NOT BE
 7 LIMITED TO COSTS RELATING TO IRRIGATION, FERTILIZATION,
 8 FUEL, SEED, WEED CONTROL, HIRED LABOR, MANAGEMENT,
 9 INSURANCE, REPAIRS AND MAINTENANCE, AND MISCELLANEOUS ITEMS.
 10 VARIATIONS IN SPECIFIC PRODUCTION COST DATA, WHEN AFFECTED
 11 BY DIFFERENT LEVELS OF PRODUCTION, AND TYPICAL RENTAL
 12 ARRANGEMENTS SHALL BE COMPILED FOR EACH LAND USE.
 13 (8) THE COMMODITY PRICE AND PRODUCTION COST DATA SHALL
 14 BE MADE AVAILABLE TO THE DEPARTMENT OF REVENUE ANNUALLY.
 15 (9) THE DEPARTMENT SHALL APPOINT AN ADVISORY COMMITTEE
 16 OF PERSONS KNOWLEDGEABLE IN AGRICULTURE AND AGRICULTURAL
 17 ECONOMICS TO REVIEW THE DATA PREPARED BY MONTANA STATE
 18 UNIVERSITY AND ADVISE THE DEPARTMENT ON THE IMPLEMENTATION
 19 OF SUBSECTIONS (2) THROUGH (8).
 20 {6}{10} Net income shall be determined separately for
 21 lands in irrigated use, nonirrigated use, and grazing use
 22 and shall be calculated for each use based-on-the-production
 23 level-comprising-the-greatest-number-of-acres--in--each--use
 24 AND PRODUCTION LEVEL ACCORDING TO THE PROVISIONS OF
 25 SUBSECTIONS (4) THROUGH (9).

1 ~~f7~~(11) The capitalization rate shall be calculated for
2 each year of the base period and is the annual average
3 interest rate on agricultural loans as reported by the
4 federal land bank association of Spokane, Washington, plus
5 the effective tax rate in Montana.

6 ~~f8~~(12) The effective tax rate shall be calculated by
7 the department for each year of the base period by dividing
8 the total dollar-value-of-all-property-taxes-levied-in-the
9 state-by-the-total-taxable-value-of-all-taxable-property--in
10 the--state ESTIMATED TAX DUE ON AGRICULTURAL LAND IN THE
11 STATE BY THE TOTAL PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL
12 LAND IN THE STATE."

13 NEW SECTION. Section 2. Extension of authority. Any
14 existing authority of the department of revenue to make
15 rules on the subject of the provisions of this act is
16 extended to the provisions of this act.

17 NEW SECTION. Section 3. Effective date --
18 applicability date. This act is effective January 1, 1986,
19 and applies to any revaluation of property as provided in
20 15-7-111 after January 1, 1986.

-End-

1 HOUSE BILL NO. 168

2 INTRODUCED BY DONALDSON, SWITZER, ASAY, KELLER,
3 ELLISON, KOEHNKE, HAYNE, HOLLIDAY, NEUMAN

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THE
6 DEPARTMENT OF REVENUE TO USE A METHOD OF VALUATION BASED ON
7 CAPITALIZATION OF NET INCOME FOR VALUING AGRICULTURAL LANDS
8 AFTER JANUARY 1, 1986; AMENDING SECTION 15-7-201, MCA; AND
9 PROVIDING AN APPLICABILITY DATE AND A DELAYED EFFECTIVE
10 DATE."

11
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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

14 "15-7-201. (Effective January 1, 1986) Legislative
15 intent -- value of agricultural property. (1) Since the
16 market value of many agricultural properties is based upon
17 speculative purchases which do not reflect the productive
18 capability of agricultural land, it is the legislative
19 intent that bona fide agricultural properties shall be
20 classified and assessed at a value that is exclusive of
21 values attributed to urban influences or speculative
22 purposes.

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

1 (3) Within each class, land shall be assessed at a
2 value that is fairly based on its ability-to-produce, taking
3 into-consideration-the-classification-system-in-existence-on
4 January-17--1986,--provided,--however,--the--department--may
5 consolidate--tillable--irrigated-land-classes. With-relation
6 to--irrigated--land,--water--costs--shall--be---taken---into
7 consideration,--except-at-no-time-may-the-resulting-value-of
8 irrigated-land-be-reduced-below-the-value--such--land--would
9 have-if-it-were-not-irrigated productive capacity.

10 (4) Capital-costs-such-as-improved-water-distribution,
11 fertilizer,--and--land--shaping--that--increase-productivity
12 shall-not-be-used-in-determining-assessed-values. For the
13 revaluation cycle beginning after January 1, 1986, the
14 department of revenue shall determine the productive
15 capacity value of all agricultural lands using a-method-of
16 appraisal-based-on-capitalization-of-net-income. THE FORMULA
17 $V = I/R$ WHERE:

18 (A) V IS THE PER-ACRE PRODUCTIVE CAPACITY VALUE OF
19 AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY;

20 (B) I IS THE PER-ACRE NET INCOME OF AGRICULTURAL LAND
21 IN EACH LAND USE AND PRODUCTION CATEGORY AND IS TO BE
22 DETERMINED BY THE DEPARTMENT USING THE FORMULA $I = (P - C) U$
23 WHERE:

24 (I) I IS THE PER-ACRE NET INCOME;

25 (II) P IS THE PER-UNIT PRICE OF THE COMMODITY BEING

1 PRODUCED;
 2 (III) C IS THE PER-UNIT PRODUCTION COST OF THE
 3 COMMODITY BEING PRODUCED; AND
 4 (IV) U IS THE YIELD IN UNITS PER ACRE; AND
 5 (C) R IS THE CAPITALIZATION RATE TO BE DETERMINED BY
 6 THE DEPARTMENT AS PROVIDED IN SUBSECTION (11).
 7 (5) Net income shall be:
 8 (a) calculated for each year of a base period, which
 9 is the most recent 3-year period for which data are
 10 available, prior to a revaluation of property as provided in
 11 15-7-111; and
 12 (b) based on commodity price and production cost data
 13 for the base period from such sources as may be considered
 14 appropriate by the department, which sources may SHALL
 15 include the Montana state university department---of
 16 agriculture.
 17 (6) MONTANA STATE UNIVERSITY SHALL ANNUALLY COMPILE
 18 COMMODITY PRICE DATA REFLECTING THE AVERAGE PRICES RECEIVED
 19 PER UNIT OF MEASURE BY MONTANA FARMERS AND RANCHERS. SUCH
 20 DATA SHALL BE OBTAINED FROM ALL GEOGRAPHICAL AREAS OF THE
 21 STATE. COMMODITY PRICES SHALL INCLUDE BUT NOT BE LIMITED TO
 22 WHEAT, BARLEY, ALFALFA HAY, GRASS HAY, CORN FOR GRAIN, CORN
 23 FOR SILAGE, SUGAR BEETS, DRY BEANS, POTATOES, CATTLE, AND
 24 SHEEP. SUCH COMMODITY PRICES SHALL INCLUDE GOVERNMENT
 25 PAYMENTS CALCULATED PER UNIT OF MEASURE. TYPICAL RENTAL

1 ARRANGEMENTS SHALL BE COMPILED FOR EACH USE.
 2 (7) MONTANA STATE UNIVERSITY SHALL ANNUALLY COMPILE
 3 ADEQUATE PRODUCTION COST DATA REFLECTING AVERAGE COSTS PER
 4 UNIT OF MEASURE PAID BY MONTANA FARMERS AND RANCHERS. SUCH
 5 DATA SHALL BE OBTAINED FROM ALL GEOGRAPHICAL AREAS OF THE
 6 STATE. SUCH PRODUCTION COSTS SHALL INCLUDE BUT NOT BE
 7 LIMITED TO COSTS RELATING TO IRRIGATION, FERTILIZATION,
 8 FUEL, SEED, WEED CONTROL, HIRED LABOR, MANAGEMENT,
 9 INSURANCE, REPAIRS AND MAINTENANCE, AND MISCELLANEOUS ITEMS.
 10 VARIATIONS IN SPECIFIC PRODUCTION COST DATA, WHEN AFFECTED
 11 BY DIFFERENT LEVELS OF PRODUCTION, AND TYPICAL RENTAL
 12 ARRANGEMENTS SHALL BE COMPILED FOR EACH LAND USE.
 13 (8) THE COMMODITY PRICE AND PRODUCTION COST DATA SHALL
 14 BE MADE AVAILABLE TO THE DEPARTMENT OF REVENUE ANNUALLY.
 15 (9) THE DEPARTMENT SHALL APPOINT AN ADVISORY COMMITTEE
 16 OF PERSONS KNOWLEDGEABLE IN AGRICULTURE AND AGRICULTURAL
 17 ECONOMICS TO REVIEW THE DATA PREPARED BY MONTANA STATE
 18 UNIVERSITY AND ADVISE THE DEPARTMENT ON THE IMPLEMENTATION
 19 OF SUBSECTIONS (2) THROUGH (8).
 20 {6}(10) Net income shall be determined separately for
 21 lands in irrigated use, nonirrigated use, and grazing use
 22 and shall be calculated for each use based-on-the-production
 23 level-comprising-the-greatest-number-of-acres--in--each--use
 24 AND PRODUCTION LEVEL ACCORDING TO THE PROVISIONS OF
 25 SUBSECTIONS (4) THROUGH (9).

1 f7}(11) The capitalization rate shall be calculated for
2 each year of the base period and is the annual average
3 interest rate on agricultural loans as reported by the
4 federal land bank association of Spokane, Washington, plus
5 the effective tax rate in Montana.

6 f8}(12) The effective tax rate shall be calculated by
7 the department for each year of the base period by dividing
8 the total dollar-value-of-all-property-taxes-levied-in-the
9 state-by-the-total-taxable-value-of-all-taxable-property--in
10 the--state ESTIMATED TAX DUE ON AGRICULTURAL LAND IN THE
11 STATE BY THE TOTAL PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL
12 LAND IN THE STATE."

13 NEW SECTION. Section 2. Extension of authority. Any
14 existing authority of the department of revenue to make
15 rules on the subject of the provisions of this act is
16 extended to the provisions of this act.

17 NEW SECTION. Section 3. Effective date --
18 applicability date. This act is effective January 1, 1986,
19 and applies to any revaluation of property as provided in
20 15-7-111 after January 1, 1986.

-End-

SENATE

STANDING COMMITTEE REPORT

Page 1 of 3

April 9, 19 85

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 168

third reading copy (blue color)

(NEUMAN WILL CARRY)

TO REQUIRE CAPITALIZATION OF NET INCOME METHOD FOR VALUING AG LANDS

Respectfully report as follows: That HOUSE BILL No. 168

be amended as follows:

- 1. Page 2, lines 12 and 13. Following: "values-" on line 12 Strike: remainder of line 12 through "1986" on line 13 Insert: "In computing the agricultural land valuation schedules to take effect on January 1, 1991, or on the date that the revaluation cycle commencing January 2, 1986, takes effect pursuant to 15-7-111"
2. Page 3, line 17. Following: "(6)" Strike: "MONTANA STATE UNIVERSITY SHALL ANNUALLY COMPILE" Insert: "To the degree available, the department shall compile: (a)"
3. Page 3, line 20. Following: "DATA" Strike: "SHALL" Insert: "may"
4. Page 3, line 21. Following: "PRICES" Strike: "SHALL" Insert: "may" Following: "INCLUDE" Strike: "BUT NOT BE LIMITED TO"

XXXXXX

XXXXXX

(continued)

JET

Chairman.

HB 168 Page 2 of 3

April 9, 1985

5. Page 3, line 24. Following: "SHEEP." Strike: "SUCH COMMODITY PRICES SHALL INCLUDE GOVERNMENT" Insert: "Government"

Page 3, line 25. Following: "PAYMENTS" Strike: "CALCULATED PER UNIT OF MEASURE" Insert: "may be considered"

6. Page 4, line 1. Following: "ARRANGEMENTS" Strike: "SHALL" Insert: "may" Strike: "COMPILED FOR EACH USE" Insert: "considered"

7. Page 4, lines 2 and 3. Following: line 1 Strike: line 2 through "ADEQUATE" on line 3 Insert: "(b)"

8. Page 4, line 5. Following: "DATA" Strike: "SHALL" Insert: "may"

9. Page 4, line 6. Following: "COSTS" Strike: "SHALL" Insert: "may" Following: "INCLUDE" Strike: "BUT NOT BE"

10. Page 4, line 7. Following: Line 6 Strike: "LIMITED TO"

11. Page 4, line 12. Following: "ARRANGEMENTS" Strike: "SHALL BE COMPILED FOR EACH LAND USE" Insert: "may be considered"

12. Page 4, lines 13 and 14. Strike: subsection (8) in its entirety Renumber: subsequent subsections

(continued)

TEU

..... April 9, 19..85..

13. Page 4, line 19.
Following: "THROUGH"
Strike: "(8)"
Insert: "(6)"
Following: " "
Insert: "The advisory committee shall include one member of the
Montana state university staff."

14. Page 4, line 25.
Following: "THROUGH"
Strike: "(9)"
Insert: "(7)"

AND AS AMENDED
BE CONCURRED IN

Thomas E. Mc

1 HOUSE BILL NO. 168

2 INTRODUCED BY DONALDSON, SWITZER, ASAY, KELLER,

3 ELLISON, KOEHNKE, HAYNE, HOLLIDAY, NEUMAN

4
5 A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THE
6 DEPARTMENT OF REVENUE TO USE A METHOD OF VALUATION BASED ON
7 CAPITALIZATION OF NET INCOME FOR VALUING AGRICULTURAL LANDS
8 AFTER JANUARY 1, 1986; AMENDING SECTION 15-7-201, MCA; AND
9 PROVIDING AN APPLICABILITY DATE AND A DELAYED EFFECTIVE
10 DATE."

11
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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

14 "15-7-201. (Effective January 1, 1986) Legislative
15 intent -- value of agricultural property. (1) Since the
16 market value of many agricultural properties is based upon
17 speculative purchases which do not reflect the productive
18 capability of agricultural land, it is the legislative
19 intent that bona fide agricultural properties shall be
20 classified and assessed at a value that is exclusive of
21 values attributed to urban influences or speculative
22 purposes.

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

1 (3) Within each class, land shall be assessed at a
2 value that is fairly based on its ability-to-produce, taking
3 into-consideration-the-classification-system-in-existence-on
4 January-1,--1986,--provided,--however,--the--department--may
5 consolidate--tillable--irrigated-land-classes.--With-relation
6 to--irrigated--land,--water--costs--shall--be---taken---into
7 consideration,--except-at-no-time-may-the-resulting-value-of
8 irrigated-land-be-reduced-below-the-value--such--land--would
9 have-if-it-were-not-irrigated productive capacity.

10 (4) ~~Capital costs such as improved water distribution,~~
11 ~~fertilizer, and land shaping that increase productivity~~
12 ~~shall not be used in determining assessed values. For the~~
13 ~~revaluation cycle beginning after January 1, 1986 IN~~
14 ~~COMPUTING THE AGRICULTURAL LAND VALUATION SCHEDULES TO TAKE~~
15 ~~EFFECT ON JANUARY 1, 1991, OR ON THE DATE THAT THE~~
16 ~~REVALUATION CYCLE COMMENCING JANUARY 2, 1986, TAKES EFFECT~~
17 ~~PURSUANT TO 15-7-111, the department of revenue shall~~
18 ~~determine the productive capacity value of all agricultural~~
19 ~~lands using a method of appraisal based on capitalization of~~
20 ~~net income. THE FORMULA $V = I/R$ WHERE:~~

21 (A) V IS THE PER-ACRE PRODUCTIVE CAPACITY VALUE OF
22 AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY;

23 (B) I IS THE PER-ACRE NET INCOME OF AGRICULTURAL LAND
24 IN EACH LAND USE AND PRODUCTION CATEGORY AND IS TO BE
25 DETERMINED BY THE DEPARTMENT USING THE FORMULA $I = (P - C) U$

1 WHERE:

- 2 (I) I IS THE PER-ACRE NET INCOME;
 3 (II) P IS THE PER-UNIT PRICE OF THE COMMODITY BEING
 4 PRODUCED;
 5 (III) C IS THE PER-UNIT PRODUCTION COST OF THE
 6 COMMODITY BEING PRODUCED; AND
 7 (IV) U IS THE YIELD IN UNITS PER ACRE; AND
 8 (C) R IS THE CAPITALIZATION RATE TO BE DETERMINED BY
 9 THE DEPARTMENT AS PROVIDED IN SUBSECTION (11).

10 (5) Net income shall be:

11 (a) calculated for each year of a base period, which
 12 is the most recent 3-year period for which data are
 13 available, prior to a revaluation of property as provided in
 14 15-7-111; and

15 (b) based on commodity price and production cost data
 16 for the base period from such sources as may be considered
 17 appropriate by the department, which sources may SHALL
 18 include the Montana state university department--of
 19 agriculture.

20 (6) MONTANA-STATE-UNIVERSITY-SHALL-ANNUALLY-COMPIL
 21 THE DEGREE AVAILABLE, THE DEPARTMENT SHALL COMPIL:

22 (A) COMMODITY PRICE DATA REFLECTING THE AVERAGE PRICES
 23 RECEIVED PER UNIT OF MEASURE BY MONTANA FARMERS AND
 24 RANCHERS. SUCH DATA SHALL MAY BE OBTAINED FROM ALL
 25 GEOGRAPHICAL AREAS OF THE STATE. COMMODITY PRICES SHALL MAY

1 INCLUDE BUT--NOT--BE-LIMITED-TO WHEAT, BARLEY, ALFALFA HAY,
 2 GRASS HAY, CORN FOR GRAIN, CORN FOR SILAGE, SUGAR BEETS, DRY
 3 BEANS, POTATOES, CATTLE, AND SHEEP. SUCH--COMMODITY--PRICES
 4 SHALL--INCLUDE-GOVERNMENT GOVERNMENT PAYMENTS CALCULATED-PER
 5 UNIT--OF--MEASURE MAY BE CONSIDERED. TYPICAL RENTAL
 6 ARRANGEMENTS SHALL MAY BE COMPILED-FOR-EACH-USE CONSIDERED.

7 {7}-MONTANA-STATE-UNIVERSITY-SHALL-ANNUALLY-COMPIL
 8 ADEQUATE (B) PRODUCTION COST DATA REFLECTING AVERAGE COSTS
 9 PER UNIT OF MEASURE PAID BY MONTANA FARMERS AND RANCHERS.
 10 SUCH DATA SHALL MAY BE OBTAINED FROM ALL GEOGRAPHICAL AREAS
 11 OF THE STATE. SUCH PRODUCTION COSTS SHALL MAY INCLUDE BUT
 12 NOT--BE LIMITED--TO COSTS RELATING TO IRRIGATION,
 13 FERTILIZATION, FUEL, SEED, WEED CONTROL, HIRED LABOR,
 14 MANAGEMENT, INSURANCE, REPAIRS AND MAINTENANCE, AND
 15 MISCELLANEOUS ITEMS. VARIATIONS IN SPECIFIC PRODUCTION COST
 16 DATA, WHEN AFFECTED BY DIFFERENT LEVELS OF PRODUCTION, AND
 17 TYPICAL RENTAL ARRANGEMENTS SHALL-BE-COMPILED-FOR-EACH--LAND
 18 USE MAY BE CONSIDERED.

19 {8}-THE-COMMODITY-PRICE-AND-PRODUCTION-COST-DATA-SHALL
 20 BE-MADE-AVAILABLE-TO-THE-DEPARTMENT-OF-REVENUE-ANNUALLY-

21 {9}(7) THE DEPARTMENT SHALL APPOINT AN ADVISORY
 22 COMMITTEE OF PERSONS KNOWLEDGEABLE IN AGRICULTURE AND
 23 AGRICULTURAL ECONOMICS TO REVIEW THE DATA PREPARED BY
 24 MONTANA STATE UNIVERSITY AND ADVISE THE DEPARTMENT ON THE
 25 IMPLEMENTATION OF SUBSECTIONS (2) THROUGH {8} (6). THE

1 ADVISORY COMMITTEE SHALL INCLUDE ONE MEMBER OF THE MONTANA
 2 STATE UNIVERSITY STAFF.

3 ~~†6††8†~~(8) Net income shall be determined separately
 4 for lands in irrigated use, nonirrigated use, and grazing
 5 use and shall be calculated for each use based-on-the
 6 production-level-comprising-the-greatest-number-of-acres--in
 7 each-use AND PRODUCTION LEVEL ACCORDING TO THE PROVISIONS OF
 8 SUBSECTIONS (4) THROUGH †9† (7).

9 ~~†7††11†~~(9) The capitalization rate shall be calculated
 10 for each year of the base period and is the annual average
 11 interest rate on agricultural loans as reported by the
 12 federal land bank association of Spokane, Washington, plus
 13 the effective tax rate in Montana.

14 ~~†8††12†~~(10) The effective tax rate shall be calculated
 15 by the department for each year of the base period by
 16 dividing the total dollar-value-of-all-property-taxes-levied
 17 in-the-state-by-the--total--taxable--value--of--all--taxable
 18 property-in-the-state ESTIMATED TAX DUE ON AGRICULTURAL LAND
 19 IN THE STATE BY THE TOTAL PRODUCTIVE CAPACITY VALUE OF
 20 AGRICULTURAL LAND IN THE STATE."

21 NEW SECTION. Section 2. Extension of authority. Any
 22 existing authority of the department of revenue to make
 23 rules on the subject of the provisions of this act is
 24 extended to the provisions of this act.

25 NEW SECTION. Section 3. Effective date --

1 applicability date. This act is effective January 1, 1986,
 2 and applies to any revaluation of property as provided in
 3 15-7-111 after January 1, 1986.

-End-