SENATE BILL NO. 168

INTRODUCED BY BECK, M. HANSON, GRINDE, KELLER,
GRADY, HIBBARD, DEBRUYCKER, HARP,
CRIPPEN, MESAROS, LYNCH
BY REQUEST OF THE DEPARTMENT OF REVENUE

IN THE SENATE

JANUARY 16, 1993	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
	FIRST READING.
FEBRUARY 4, 1993	COMMITTEE RECOMMEND BILL DO PASS AS AMENDED. REPORT ADOPTED.
FEBRUARY 5, 1993	PRINTING REPORT.
	SECOND READING, DO PASS.
FEBRUARY 6, 1993	ENGROSSING REPORT.
	THIRD READING, PASSED. AYES, 45; NOES, 5.
	TRANSMITTED TO HOUSE.

IN THE HOUSE

FEBRUARY 8, 1993	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
	FIRST READING.
MARCH 10, 1993	COMMITTEE RECOMMEND BILL BE CONCURRED IN. REPORT ADOPTED.
MARCH 13, 1993	SECOND READING, CONCURRED IN.
MARCH 16, 1993	THIRD READING, CONCURRED IN. AYES, 88; NOES, 12.
MARCH 17, 1993	RETURNED TO SENATE.

IN THE SENATE

MARCH 18, 1993	RECEIVED FROM HOUSE.
	SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

Senate BILL NO. 168

INTRODUCED BY [signature] Grinde

Keller

BY REQUEST OF THE DEPARTMENT OF REVENUE Brady

DeBruycker HARP Lynch

A BILL FOR AN ACT ENTITLED: "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; AMENDING SECTIONS 15-6-133, 15-7-201, AND 15-8-111, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, AN APPLICABILITY DATE, AND A TERMINATION DATE."

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

Section 1. Section 15-6-133, MCA, is amended to read:

"**15-6-133. Class three property -- description -- taxable percentage.** (1) Class three property includes:

(a) agricultural land as defined in 15-7-202;

(b) nonproductive patented mining claims outside the limits of an incorporated city or town held by an owner for the ultimate purpose of developing the mineral interests on

the property. For the purposes of this subsection (1)(b), the following provisions apply:

(i) The claim may not include any property that is used for residential purposes, recreational purposes as described in 70-16-301, or commercial purposes as defined in 15-1-101 or any property the surface of which is being used for other than mining purposes or has a separate and independent value for ~~such~~ other purposes.

(ii) Improvements to the property that would not disqualify the parcel are taxed as otherwise provided in this title, including that portion of the land upon which ~~such~~ the improvements are located and that is reasonably required for the use of the improvements.

(iii) Nonproductive patented mining claim property must be valued as if the land were devoted to agricultural grazing use.

(2) Class three property is taxed at the taxable percentage rate ~~"P"-of-its-productive-capacity~~ applicable to class four property, as provided in 15-6-134(2)(a).

~~(3)--Until-July-1,-1986,-the-taxable-percentage-rate-"P" for-class-three-property-is-30%.~~

~~(4)--Prior--to--July--1,-1986,-the-department-of-revenue shall-determine-the-taxable-percentage-rate--"P"--applicable to--class-three-property-for-the-revaluation-cycle-beginning January-1,-1986,-as-follows:~~

~~(a)--The-director-of-the--department--of--revenue--shall certify--to-the-governor-before-July-1,-1986,-the-percentage by-which-the-appraised-value-of-all-property--in--the--state classified--under--class--three--as--of-January-1,-1986,-has increased-due-to-the-revaluation-conducted--under--15-7-111. This---figure---is---the---"certified--statewide--percentage increase".~~

~~(b)--The-taxable-value-of-property--in--class--three--is determined---as---a--function--of--the--certified--statewide percentage-increase--in--accordance--with--the--table--shown below.~~

~~(c)--This-table-limits-the-statewide-increase-in-taxable valuation--resulting--from-reappraisal-to-0%.--In-calculating the-percentage-increase,-the--department--may--not--consider agricultural-use-changes-during-calendar-year-1985.~~

~~(d)--The---taxable--percentage--must--be--calculated--by interpolation-to-coincide--with--the--nearest--whole--number certified--statewide--percentage-increase-from-the-following table:~~

~~Certified-Statewide Percentage-Increase~~	~~Class-Three-Taxable Percentage-"P"~~
~~-0~~	~~30.00~~
~~10~~	~~27.27~~
~~20~~	~~25.00~~
~~30~~	~~23.00~~

~~40~~	~~21.43~~
~~50~~	~~20.00~~

~~(5)--After-July-1,-1986,-no-adjustment-may--be--made--by the--department--to--the-taxable-percentage-rate-"P"-until-a revaluation-has-been-made-as-provided-in-15-7-111.~~"

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

"**15-7-201. (Temporary -- applicable to 1986 land valuation schedules) Legislative intent -- value of agricultural property.** (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not ~~be~~ limited to irrigated use, nonirrigated use, and grazing use. Within each class, land ~~shall~~ must 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,~~ that the department may consolidate tillable irrigated land classes. With relation to irrigated land, water costs ~~shall~~ must be

taken into consideration, except at no time may the resulting value of irrigated land be reduced below the value ~~such~~ that the land would have if it were not irrigated.

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

15-7-201. (Applicable to ~~1993~~ 1994 and later land valuation schedules) Legislative intent -- value of agricultural property. (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not ~~be~~ limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land ~~shall--be-assessed-at-a value-that-is-fairly-based-on-its-productive--capacity~~ 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 ~~the-date--that--the--revaluation cycle--commencing--January-2,-1986,-takes-effect-pursuant-to 15-7-111~~ 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 ~~by-the-department-using-the-formula-I-=--(P---C)-Y where:~~

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

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

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

~~(iv)-Y-is-the-yield-in-units-per--acre~~ as provided in subsection (5); and

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

~~(5)--Net-income-shall-be:~~

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

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

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

(b) Net income must be based on commodity price data, grazing fees, crop share arrangements, and production cost data for the base period. Commodity price data, grazing fees, and production cost data for the base period must be obtained from the Montana Agricultural Statistics and from the Montana crop and livestock reporting service.

(c) The base crop for valuation of irrigated land is alfalfa, and the base crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is the average grazing fee for a 1,000-pound animal.

(d) The base period used to determine net income must be the most recent 7 years for which data is available prior to the date the revaluation cycle ends. Commodity price

data, grazing fees, and production cost data referred to in subsection (5)(b) must be averaged for the 7-year period, but the average must exclude the lowest and highest commodity prices or grazing fees and the lowest and highest production costs in the period.

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

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

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

(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 department shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data ~~prepared-by-Montana state--university--and--advise---the---department---on---the implementation--of--subsections--(2)-through-(6)~~ 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.

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

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

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

~~the-state.~~"

NEW SECTION. **Section 3. Phasein of agricultural land values.** The increase or decrease in productive capacity values of agricultural land determined in 15-7-201 must be phased in over two reappraisal cycles, as follows:

(1) For the revaluation cycle beginning January 1, 1994, and ending December 31, 1996, the assessed value of agricultural land in each land use and production category must increase or decrease by 50% of the difference between the productive capacity value of agricultural land determined in 15-7-201 for 1994 land valuation schedules and the assessed value of agricultural land as of December 31, 1993.

(2) Beginning January 1, 1997, the assessed value of agricultural land in each land use and production category must be 100% of the productive capacity value of agricultural land determined in 15-7-201.

NEW SECTION. **Section 4. Advisory committee -- review of water costs.** The department of revenue shall appoint an advisory committee knowledgeable in irrigated agricultural operations to review water costs associated with irrigated lands and to recommend to the department how water costs should be considered for determining the irrigated land valuation schedules that take effect January 1, 1997. The committee shall present its recommendations to the department by January 1, 1995.

Section 5. Section 15-8-111, MCA, is amended to read:

"**15-8-111. Assessment -- market value standard -- exceptions.** (1) All taxable property must be assessed at 100% of its market value except as otherwise provided.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.

(c) Except as provided in subsection (3), the market value of all motor trucks; agricultural tools, implements, and machinery; and vehicles of all kinds, including but not limited to boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The department of revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.

(3) The department of revenue or its agents may not adopt a lower or different standard of value from market

value in making the official assessment and appraisal of the value of property, except:

(a) the wholesale value for agricultural implements and machinery is the loan value as shown in the Official Guide, Tractor and Farm Equipment, published by the national farm and power equipment dealers association, St. Louis, Missouri;

(b) for agricultural implements and machinery not listed in the official guide, the department shall prepare a supplemental manual where the values reflect the same depreciation as those found in the official guide; and

(c) as otherwise authorized in Title 15 and Title 61.

(4) For purposes of taxation, assessed value is the same as appraised value.

(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.

(6) The assessed value of properties in 15-6-131 through 15-6-133 is as follows:

(a) Properties in 15-6-131, under class one, are assessed at 100% of the annual net proceeds after deducting the expenses specified and allowed by 15-23-503 or, if applicable, as provided in 15-23-515 or 15-23-516.

(b) Properties in 15-6-132, under class two, are assessed at 100% of the annual gross proceeds.

(c) Properties in 15-6-133, under class three, are assessed at 100% of the productive capacity of the lands, as provided in [section 3], when valued for agricultural purposes. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

(d) Beginning January 1, 1990, and ending December 31, 1993, properties in 15-6-143, under class ten, are assessed at 100% of the combined appraised value of the standing timber and grazing productivity of the land when valued as timberland.

(e) Beginning January 1, 1994, properties in 15-6-143, under class ten, are assessed at 100% of the forest productivity value of the land when valued as forest land.

(7) Land and the improvements thereon are separately assessed when any of the following conditions occur:

(a) ownership of the improvements is different from ownership of the land;

(b) the taxpayer makes a written request; or

(c) the land is outside an incorporated city or town. (Subsection (6)(d) terminates January 1, 1994--sec. 19, Ch. 783, L. 1991.)"

NEW SECTION. **Section 6. Codification instruction.** [Sections 3 and 4] are intended to be codified as an integral part of Title 15, chapter 7, part 2, and the provisions of Title 15, chapter 7, part 2, apply to

[sections 3 and 4].

NEW SECTION. **Section 7. Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 8. Termination.** [Section 4] terminates January 1, 1997.

NEW SECTION. **Section 9. Effective date -- applicability.** [This act] is effective on passage and approval and applies to tax years beginning on or after January 1, 1994.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15
In compliance with a written request, there is hereby submitted a Fiscal Note for SB0168 , as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:
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, and a termination date.

ASSUMPTIONS:
As a point of reference, this fiscal note measures the impact of this proposal by comparing current valuations (tax year 1992) with estimated valuations under the proposal. This reference point is consistent with HJR2, which assumed the agricultural land tax rate would be reduced to a revenue neutral level in face of the revaluation. The revenue neutrality assumption in HJR2 reduces FY95 income to the school foundation program by about $34.5 million, to the university levy by $2.2 million and to local governments (including school districts) by $67.2 million relative to current law.

1. Current total assessed value of class three property (agricultural land) is $470,016,133. The current tax rate for class three property is 30%. The current total taxable value is $141,004,840.
2. Estimated taxes paid by class three property (fiscal year 93) is $40,469,228 (based on average state, county, and school mill levies for tax year 1992).
3. All estimates of the impact of this proposal are based on land schedule parameters and changes to land schedule formulas as recommended by the Agricultural Land Advisory Committee appointed by Governor Stephens (15-7-201(7),MCA). In summary, the recommendations incorporated into this fiscal note are:
   a) The assessed value of agricultural land is determined by capitalizing the rental value of the land.
   b) Rental value is determined as 1/4 cropshare on all cropland.
   c) Prices and grazing fees are based on a seven-year Olympic historical average.
   d) Water costs due to energy and labor are deducted from the rental value prior to determining assessed value on irrigated land.
   e) The water cost categories are modified to account for higher costs. (The estimates in this fiscal note are based on a water cost of $12.50. It is not expected for these estimates to differ much from the eventual valuations.)
   f) The capitalization rate is 6.4 %.
   g) The taxable rate is reduced from 30% to 3.86%.
   h) The valuation change due to the proposal is phased in, with 50% of the incremental change (from current values) occurring on Jan. 1, 1994, and the remaining 50% of the incremental value occurring on Jan.1, 1997.

(Continued)

Dave Lewis 1-22-93
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Tom Beck 1/25/93
TOM BECK, PRIMARY SPONSOR DATE
Fiscal Note for SB0168, as introduced

SB 168

ASSUMPTIONS (continued):

4. Based on assumption 3 and current statewide ag land distribution, the total assessed value under the proposal for Jan. 1, 1994 is estimated to be $3,673,903,367. The total taxable value under the proposal for Jan. 1, 1994 is estimated to be $141,812,670.
5. Estimated taxes paid by class three property under the proposal for fiscal year 95 is $40,647,207 (based on average state, county, and school mill levies for tax year 1992).
6. Based on assumption 3 and current statewide ag land distribution, the total assessed value under the proposal for Jan. 1, 1997 is estimated to be $3,694,831,606. The total taxable value under the proposal for Jan. 1, 1997 is estimated to be $142,620,500.
7. Estimated taxes paid by class three property under the proposal for fiscal year 97 is $40,825,185 (based on average state, county, and school mill levies for tax year 1992).
8. If new agricultural land schedules are calculated under existing law (15-7-201, MCA), the result will be an increase in the taxable value of class three by 258% over current law producing increased property tax revenues of $103.9 million. This increase would be effective Jan. 1, 1993.

FISCAL IMPACT:

Revenues:
The impact of the proposal begins with the phase in values replacing current values Jan. 1, 1994 (fiscal year 95 property tax revenues).

Statewide
The proposal results in little change to statewide taxable value of class three property and estimated taxes paid by class three property.

Taxable Value Shift Between Counties (Tables 1 and 2)
Although the proposal is statewide revenue neutral, there is shifting of taxable valuation between counties. The impacts range from a maximum increase in class three taxable valuation of 20.7% (Deer Lodge County) to a maximum decrease in class three taxable valuation of -12.2% (Chouteau County). The maximum increase in county total taxable value is 4.0% for Garfield County and the maximum decrease in county total taxable value is -6.2% for Chouteau County.

Likewise, the estimated property taxes paid by class three property range from a maximum increase of 20.7% (Deer Lodge County) to a maximum decrease of -12.2% (Chouteau County). The maximum increase in county total estimated taxes paid by all property is 4.0% for Garfield County and the maximum decrease is -6.2% for Chouteau County.

Taxable Value Shift Between Ag Land Types (Table 3)
The proposal also shifts taxable between agricultural land types. Irrigated, grazing, and continuously cropped agricultural land will increase in taxable value per acre. Non-irrigated summer fallow and non-irrigated continuously cropped agricultural land will decrease in taxable value per acre.

SB 168

Fiscal Note Request, SB0168, as introduced
Form BD-15 page 3
(continued)

Expenditures:

Implementation of this proposal would require additional total administrative expenses of $266,400 as detailed below:

Property Valuation	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
FTE	398.66	408.16	9.50	398.66	398.6	0
Personal Services	$ 11,885,655	$ 12,113,340	$ 227,685	$ 11,913,545	$ 11,913,545	$ 0
Operating Expenses	2,180,406	2,214,153	33,747	2,192,109	2,197,077	4,968
Equipment	222,278	0	0	205,648	0	0
Debt Service	269,800	0	0	269,800	0	0
Total	$ 14,558,139	$ 14,819,571	$ 261,432	$ 14,581,102	$ 14,586,070	$ 4,968
General Fund	$ 14,558,139	$ 14,819,571	$ 261,432	$ 14,581,102	$ 14,586,070	$ 4,968

SB 168

TABLE 1

Change in Taxable Value --- PHASE IN
Current vs. Proposal (SB 168)

County	Impact to Class 3 Taxable Value: Current Taxable Value	Proposed Taxable Value	Percent Change	Impact to Total Taxable Value: Current Taxable Value	Proposed Taxable Value	Percent Change
Beaverhead	$2,330,217	$2,708,231	16.2%	$15,922,182	$16,300,196	2.4%
Big Horn	$3,441,632	3,541,764	2.9%	26,681,354	26,781,486	0.4%
Blaine	$3,889,266	4,057,871	4.3%	13,892,940	14,061,545	1.2%
Broadwater	$1,027,449	1,089,951	6.1%	14,226,141	14,288,643	0.4%
Carbon	$2,154,795	2,237,255	3.8%	17,903,295	17,985,755	0.5%
Carter	$1,714,560	1,883,117	9.8%	7,357,469	7,526,026	2.3%
Cascade	$4,937,046	4,733,926	-4.1%	95,846,935	95,643,815	-0.2%
Chouteau	$12,785,972	11,223,575	-12.2%	25,358,497	23,796,100	-6.2%
Custer	$2,126,631	2,355,802	10.8%	14,584,111	14,813,282	1.6%
Daniels	$2,373,771	2,408,021	1.4%	6,294,803	6,329,053	0.5%
Dawson	$3,040,230	3,204,413	5.4%	18,257,665	18,421,848	0.9%
Deer Lodge	$231,178	278,995	20.7%	8,769,899	8,817,716	0.5%
Fallon	$1,285,985	1,387,081	7.9%	10,278,478	10,379,574	1.0%
Fergus	$6,002,715	5,819,662	-3.0%	21,943,967	21,760,914	-0.8%
Flathead	$1,517,960	1,603,835	5.7%	103,059,904	103,145,779	0.1%
Gallatin	$2,783,397	2,806,076	0.8%	80,995,369	81,018,048	0.0%
Garfield	$2,800,632	3,018,492	7.8%	5,393,469	5,611,329	4.0%
Glacier	$3,265,126	3,005,304	-8.0%	19,630,260	19,370,438	-1.3%
Golden Valley	$1,122,288	1,168,022	4.1%	5,153,869	5,199,603	0.9%
Granite	$506,173	565,194	11.7%	7,655,867	7,714,888	0.8%
Hill	$6,830,214	6,682,351	-2.2%	29,941,411	29,793,548	-0.5%
Jefferson	$549,496	614,878	11.9%	23,342,749	23,408,131	0.3%
Judith Basin	$3,177,281	3,106,967	-2.2%	8,952,652	8,882,338	-0.8%
Lake	$1,267,532	1,525,249	20.3%	31,437,674	31,695,391	0.8%
Lewis And Clark	$1,568,243	1,626,794	3.7%	69,016,382	69,074,933	0.1%
Liberty	$3,662,622	3,535,716	-3.5%	9,568,354	9,441,448	-1.3%
Lincoln	$112,666	130,535	15.9%	27,564,167	27,582,036	0.1%
Madison	$2,081,935	2,201,745	5.8%	20,791,628	20,911,438	0.6%
McCone	$3,452,851	3,508,512	1.6%	7,801,726	7,857,387	0.7%
Meagher	$1,382,720	1,481,667	7.2%	8,154,786	8,253,733	1.2%
Mineral	$63,507	69,516	9.5%	8,080,300	8,086,309	0.1%
Missoula	$457,022	507,354	11.0%	126,303,291	126,353,623	0.0%
Musselshell	$1,528,630	1,575,752	3.1%	6,878,626	6,925,748	0.7%
Park	$1,469,303	1,469,834	0.0%	24,316,869	24,317,400	0.0%
Petroleum	$834,373	899,119	7.8%	1,904,786	1,969,532	3.4%
Phillips	$3,577,845	3,670,136	2.6%	20,295,327	20,387,618	0.5%
Pondera	$4,946,152	4,603,312	-6.9%	14,988,037	14,645,197	-2.3%
Powder River	$1,793,774	1,893,608	5.6%	6,368,160	6,467,994	1.6%
Powell	$793,096	941,168	18.7%	12,458,281	12,606,353	1.2%
Prairie	$1,119,949	1,228,517	9.7%	4,358,142	4,466,710	2.5%
Ravalli	$1,074,381	1,164,928	8.4%	32,043,712	32,134,259	0.3%
Richland	$3,465,230	3,697,048	6.7%	21,745,758	21,977,576	1.1%
Roosevelt	$3,789,980	3,752,491	-1.0%	24,801,194	24,763,705	-0.2%
Rosebud	$2,834,829	3,044,785	7.4%	182,854,693	183,064,649	0.1%
Sanders	$356,135	411,109	15.4%	24,882,163	24,937,137	0.2%
Sheridan	$3,539,815	3,521,735	-0.5%	12,018,054	11,999,974	-0.2%
Silver Bow	$193,162	213,722	10.6%	50,333,573	50,354,133	0.0%
Stillwater	$2,414,761	2,396,851	-0.7%	19,753,669	19,735,759	-0.1%
Sweet Grass	$1,335,250	1,387,870	3.9%	8,288,052	8,340,672	0.6%
Teton	$5,194,637	4,989,285	-4.0%	15,427,359	15,222,007	-1.3%
Toole	$5,107,754	4,809,669	-5.8%	17,683,716	17,385,631	-1.7%
Treasure	$754,598	868,702	15.1%	4,983,890	5,097,994	2.3%
Valley	$4,797,035	4,843,682	1.0%	25,737,184	25,783,831	0.2%
Wheatland	$1,319,804	1,387,115	5.1%	7,780,858	7,848,169	0.9%
Wibaux	$1,132,251	1,148,056	1.4%	4,073,266	4,089,071	0.4%
Yellowstone	$3,688,984	3,806,317	3.2%	198,486,026	198,603,359	0.1%
Statewide	**$141,004,840**	**$141,812,670**	**0.6%**	**$1,632,622,989**	**$1,633,430,819**	**0.05%**

SB 168

TABLE 2

Change in Estimated Taxes Paid * --- PHASE IN
Current vs. Proposal (SB 168)

County	Mills	Impact to Class 3 Est. Taxes Paid: Current Est. Taxes	Proposed Est. Taxes	Percent Change	Impact to Est.Total Taxes Paid: Current Est. Taxes	Proposed Est. Taxes	Percent Change
Beaverhead	318.99	$743,319	$863,901	16.2%	$5,079,035	$5,199,618	2.4%
Big Horn	211.29	727,199	748,357	2.9%	5,637,634	5,658,792	0.4%
Blaine	265.80	1,033,762	1,078,577	4.3%	3,692,726	3,737,541	1.2%
Broadwater	239.01	245,570	260,508	6.1%	3,400,181	3,415,119	0.4%
Carbon	303.71	654,443	679,487	3.8%	5,437,496	5,462,540	0.5%
Carter	279.03	478,411	525,443	9.8%	2,052,944	2,099,976	2.3%
Cascade	365.25	1,803,254	1,729,065	−4.1%	35,008,059	34,933,869	−0.2%
Chouteau	315.64	4,035,703	3,542,555	−12.2%	8,004,034	7,510,887	−6.2%
Custer	392.76	835,263	925,273	10.8%	5,728,105	5,818,115	1.6%
Daniels	362.59	860,716	873,135	1.4%	2,282,461	2,294,880	0.5%
Dawson	352.63	1,072,082	1,129,978	5.4%	6,438,234	6,496,130	0.9%
Deer Lodge	449.42	103,897	125,386	20.7%	3,941,393	3,962,883	0.5%
Fallon	177.81	228,657	246,632	7.9%	1,827,582	1,845,557	1.0%
Fergus	331.84	1,991,948	1,931,203	−3.0%	7,281,912	7,221,167	−0.8%
Flathead	354.08	537,480	567,887	5.7%	36,491,498	36,521,904	0.1%
Gallatin	318.57	886,696	893,920	0.8%	25,802,374	25,809,599	0.0%
Garfield	277.41	776,912	837,348	7.8%	1,496,181	1,556,616	4.0%
Glacier	241.97	790,050	727,181	−8.0%	4,749,856	4,686,988	−1.3%
Golden Valley	248.60	278,998	290,368	4.1%	1,281,240	1,292,609	0.9%
Granite	299.79	151,748	169,442	11.7%	2,295,187	2,312,881	0.8%
Hill	273.17	1,865,800	1,825,408	−2.2%	8,179,053	8,138,661	−0.5%
Jefferson	273.20	150,122	167,985	11.9%	6,377,245	6,395,108	0.3%
Judith Basin	289.16	918,728	898,397	−2.2%	2,588,709	2,568,377	−0.8%
Lake	288.39	365,544	439,867	20.3%	9,066,317	9,140,640	0.8%
Lewis And Clark	349.13	547,517	567,958	3.7%	24,095,509	24,115,951	0.1%
Liberty	289.08	1,058,777	1,022,092	−3.5%	2,765,985	2,729,299	−1.3%
Lincoln	282.50	31,828	36,875	15.9%	7,786,759	7,791,807	0.1%
Madison	244.95	509,968	539,316	5.8%	5,092,891	5,122,239	0.6%
McCone	313.36	1,081,991	1,099,433	1.6%	2,444,762	2,462,204	0.7%
Meagher	242.17	334,849	358,810	7.2%	1,974,818	1,998,779	1.2%
Mineral	347.86	22,092	24,182	9.5%	2,810,850	2,812,940	0.1%
Missoula	380.49	173,890	193,041	11.0%	48,056,636	48,075,787	0.0%
Musselshell	228.85	349,823	360,606	3.1%	1,574,154	1,584,937	0.7%
Park	272.59	400,520	400,664	0.0%	6,628,575	6,628,719	0.0%
Petroleum	304.96	254,450	274,195	7.8%	580,884	600,628	3.4%
Phillips	214.33	766,831	786,612	2.6%	4,349,850	4,369,630	0.5%
Pondera	301.10	1,489,265	1,386,037	−6.9%	4,512,833	4,409,606	−2.3%
Powder River	323.14	579,635	611,895	5.6%	2,057,789	2,090,049	1.6%
Powell	326.35	258,827	307,150	18.7%	4,065,760	4,114,083	1.2%
Prairie	269.96	302,341	331,650	9.7%	1,176,524	1,205,833	2.5%
Ravalli	301.16	323,562	350,831	8.4%	9,650,327	9,677,596	0.3%
Richland	233.33	808,552	862,643	6.7%	5,074,002	5,128,093	1.1%
Roosevelt	239.00	905,801	896,842	−1.0%	5,927,461	5,918,501	−0.2%
Rosebud	137.24	389,043	417,857	7.4%	25,094,404	25,123,218	0.1%
Sanders	261.14	93,000	107,356	15.4%	6,497,648	6,512,003	0.2%
Sheridan	232.97	824,679	820,467	−0.5%	2,799,875	2,795,663	−0.2%
Silver Bow	418.60	80,857	89,464	10.6%	21,069,599	21,078,205	0.0%
Stillwater	259.77	627,291	622,638	−0.7%	5,131,479	5,126,826	−0.1%
Sweet Grass	300.55	401,309	417,124	3.9%	2,490,970	2,506,785	0.6%
Teton	310.78	1,614,364	1,550,546	−4.0%	4,794,439	4,730,621	−1.3%
Toole	241.44	1,233,240	1,161,269	−5.8%	4,269,639	4,197,668	−1.7%
Treasure	267.57	201,908	232,439	15.1%	1,333,539	1,364,070	2.3%
Valley	319.46	1,532,441	1,547,343	1.0%	8,221,895	8,236,796	0.2%
Wheatland	285.10	376,277	395,467	5.1%	2,218,326	2,237,517	0.9%
Wibaux	202.40	229,168	232,367	1.4%	824,429	827,628	0.4%
Yellowstone	306.00	1,128,830	1,164,734	3.2%	60,736,784	60,772,687	0.1%
Statewide		**$40,469,228**	**$40,647,206**	**0.4%**	**$480,248,847**	**$480,426,826**	**0.04%**

* NOTE: Estimated taxes are calculated using average state, county and school mill levies.

SB 168

TABLE 3

Change in Taxable Value Per Acre --- PHASE IN
Current to Proposal (SB 168)

		Taxable Value Per Acre		
Land Type	Acres	Current	Proposed	Percent Change
Irrigated	1,466,922	$9.17	$11.28	23.0%
Grazing	35,659,230	$1.06	$1.11	5.0%
Continously Cropped Hay	1,059,590	$5.22	$7.08	35.7%
Non Irrigated Summer Fallow	12,162,308	$6.83	$6.33	−7.4%
Non Irrigated Continously Cropped	69,947	$16.67	$16.41	−1.6%
Statewide	50,417,997	$2.80	$2.81	0.6%

SB 168

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB0168 , second reading.

DESCRIPTION OF PROPOSED LEGISLATION:

An act generally revising the taxation of agricultural land; revising the method of valuing agricultural lands in class three property for property tax purposes; providing for the determination of net income from agricultural land; holding constant the statewide total taxable value of class three property between reappraisal cycles; phasing in the change in the taxable value of agricultural lands; taxing class three property at the rate applicable to class four property; establishing an advisory committee to review all relevant costs, including water costs, in determining the productive capacity of irrigated lands; eliminating class eleven farmstead property by combining it with class four property; and providing an immediate effective date, an applicability date, and a termination date.

ASSUMPTIONS:

As a point of reference, this fiscal note measures the impact of this proposal by comparing current valuations (tax year 1992) with estimated valuations under the proposal.

1. Current total assessed value of class three property (agricultural land) is $470,016,133. The current tax rate for class three property is 30%. The current total taxable value is $141,004,840.
2. Estimated taxes paid by class three property (FY93) is $40,469,228 (based on average state, county, and school mill levies for tax year 1992).
3. All estimates of the impact of this proposal are based on land schedule parameters and changes to land schedule formulas as recommended by the Agricultural Land Advisory Committee appointed by Governor Stephens (15-7-201(7), MCA). In summary, the recommendations incorporated into this fiscal note are:
   a) The assessed value of agricultural land is determined by capitalizing the rental value of the land.
   b) Rental value is determined as 1/4 cropshare on all cropland.
   c) Prices and grazing fees are based on a seven-year Olympic historical average.
   d) Water costs due to energy and labor are deducted from the rental value prior to determining assessed value on irrigated land.
   e) The water cost categories are modified to account for higher costs. (The estimates in this fiscal note are based on a water cost of $12.50. It is not expected for these estimates to differ much from the eventual valuations.)
   f) The capitalization rate is 6.4 %.
   g) The taxable rate is reduced from 30% to 3.86%.
   h) The taxable valuation change due to the proposal is phased in over four years beginning Jan. 1, 1994.
4. Based on assumption 3 and current statewide ag land distribution, the total assessed value under the proposal for Jan. 1, 1994 is estimated to be $3,663,439,249. The total taxable value under the proposal for Jan. 1, 1994 is estimated to be $141,408,755.

(Continued)

Dave Lewis 2-9-93

DAVID LEWIS, BUDGET DIRECTOR DATE

Office of Budget and Program Planning

Sen Tom Beck

TOM BECK, PRIMARY SPONSOR DATE

SB168-#2

Fiscal Note Request, SB0168, second reading
Form BD-15 page 2
(continued)

ASSUMPTIONS (continued):

5. Estimated taxes paid by class three property under the proposal for FY95 is $40,558,217 (based on average state, county, and school mill levies for tax year 1992).
6. If new agricultural land schedules are calculated under existing law (15-7-201, MCA), the result will be an increase in the taxable value of class three by 258% over current law. This increase would be effective Jan. 1, 1993.
7. Tax year 1992 taxable value of class eleven property (farmsteads) is $60,258,864. Reclassifying this property as class four results in a taxable rate increase from 3.088% to 3.86%. This increases the total taxable value of this property to $75,323,580.
8. Average mill levies for class eleven property are 6.00 mills for universities, 95.00 mills for the school foundation program, 78.62 mills for counties, and 116.71 mills for local schools.

FISCAL IMPACT:

Revenues:
The impact of the proposal begins with the phase in taxable values replacing current taxable values Jan. 1, 1994 (FY95 property tax revenues).

Impact Due to Agricultural Land Reappraisal (First Year 25% Phase in):

Statewide
The proposal results in little change to statewide taxable value of class three property and estimated taxes paid by class three property.

Ag Land Taxable Value Shift Between Counties (Tables 1 and 2)
Although the proposal is statewide revenue neutral with respect to ag land, there is shifting of ag land taxable valuation between counties. The impacts range from a maximum increase in class three taxable valuation of 10.3% (Deer Lodge County) to a maximum decrease in class three taxable valuation of -6.1% (Chouteau County).

Likewise, the estimated property taxes paid by class three property range from a maximum increase of 10.3% (Deer Lodge County) to a maximum decrease of -6.1% (Chouteau County).

Taxable Value Shift Between Ag Land Types (Table 3)
The proposal also shifts taxable between agricultural land types. Irrigated, grazing, and continuously cropped hay land will increase in taxable value per acre. Non-irrigated summer fallow and non-irrigated continuously cropped agricultural land will decrease in taxable value per acre.

Impact Due to Combining Class Eleven Farmstead Property with Class Four Property:
The proposal results in a total increase in property tax revenue of $4,463,000 in FY95 and subsequent fiscal years. The results are summarized in the tables below:

SB 168-#2

FISCAL IMPACT: (Continued)

Increase to State Funds:

	FY94	FY95
Universities (02)	$ 0	$ 90,000
School Foundation (02)	0	1,431,000
Total	$ 0	$ 1,521,000

Increase to Local Governments:

	FY94	FY95
Counties	$ 0	$ 1,184,000
Local Schools	0	1,758,000
Total	$ 0	$ 2,942,000

Expenditures:

Implementation of this proposal would require additional total administrative expenses of $266,400 as detailed below:

Property Valuation	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
FTE	398.66	408.16	9.50	398.66	398.6	0
Personal Services	$ 11,885,655	$ 12,113,340	$ 227,685	$ 11,913,545	$ 11,913,545	$ 0
Operating Expenses	2,180,406	2,214,153	33,747	2,192,109	2,197,077	4,968
Equipment	222,278	0	0	205,648	0	0
Debt Service	269,800	0	0	269,800	0	0
Total	$ 14,558,139	$ 14,819,571	$ 261,432	$ 14,581,102	$ 14,586,070	$ 4,968
General Fund Impact	$ 14,558,139	$ 14,819,571	$ 261,432	$ 14,581,102	$ 14,586,070	$ 4,968

SB 168 #2

TABLE 1

Change in Taxable Value --- 1st YEAR PHASE IN (25%)
Current vs. Proposal (SB 168, 2nd reading)

County	Impact to County Total Ag Land Taxable Value Current	Proposed (25% Phase in)	Percent Change
Beaverhead	$2,330,217	$2,519,224	8.1%
Big Horn	$3,441,632	$3,491,698	1.5%
Blaine	$3,889,266	$3,973,569	2.2%
Broadwater	$1,027,449	$1,058,700	3.0%
Carbon	$2,154,795	$2,196,025	1.9%
Carter	$1,714,560	$1,798,838	4.9%
Cascade	$4,937,046	$4,835,486	−2.1%
Chouteau	$12,785,972	$12,004,774	−6.1%
Custer	$2,126,631	$2,241,216	5.4%
Daniels	$2,373,771	$2,390,896	0.7%
Dawson	$3,040,230	$3,122,321	2.7%
Deer Lodge	$231,178	$255,086	10.3%
Fallon	$1,285,985	$1,336,533	3.9%
Fergus	$6,002,715	$5,911,188	−1.5%
Flathead	$1,517,960	$1,560,898	2.8%
Gallatin	$2,783,397	$2,794,736	0.4%
Garfield	$2,800,632	$2,909,562	3.9%
Glacier	$3,265,126	$3,135,215	−4.0%
Golden Valley	$1,122,288	$1,145,155	2.0%
Granite	$506,173	$535,684	5.8%
Hill	$6,830,214	$6,756,282	−1.1%
Jefferson	$549,496	$582,187	5.9%
Judith Basin	$3,177,281	$3,142,124	−1.1%
Lake	$1,267,532	$1,396,390	10.2%
Lewis And Clark	$1,568,243	$1,597,519	1.9%
Liberty	$3,662,622	$3,599,169	−1.7%
Lincoln	$112,666	$121,600	7.9%
Madison	$2,081,935	$2,141,840	2.9%
McCone	$3,452,851	$3,480,682	0.8%
Meagher	$1,382,720	$1,432,193	3.6%
Mineral	$63,507	$66,511	4.7%
Missoula	$457,022	$482,188	5.5%
Musselshell	$1,528,630	$1,552,191	1.5%
Park	$1,469,303	$1,469,568	0.0%
Petroleum	$834,373	$866,746	3.9%
Phillips	$3,577,845	$3,623,990	1.3%
Pondera	$4,946,152	$4,774,732	−3.5%
Powder River	$1,793,774	$1,843,691	2.8%
Powell	$793,096	$867,132	9.3%
Prairie	$1,119,949	$1,174,233	4.8%
Ravalli	$1,074,381	$1,119,655	4.2%
Richland	$3,465,230	$3,581,139	3.3%
Roosevelt	$3,789,980	$3,771,235	−0.5%
Rosebud	$2,834,829	$2,939,807	3.7%
Sanders	$356,135	$383,622	7.7%
Sheridan	$3,539,815	$3,530,775	−0.3%
Silver Bow	$193,162	$203,442	5.3%
Stillwater	$2,414,761	$2,405,806	−0.4%
Sweet Grass	$1,335,250	$1,361,560	2.0%
Teton	$5,194,637	$5,091,961	−2.0%
Toole	$5,107,754	$4,958,712	−2.9%
Treasure	$754,598	$811,650	7.6%
Valley	$4,797,035	$4,820,358	0.5%
Wheatland	$1,319,804	$1,353,460	2.6%
Wibaux	$1,132,251	$1,140,154	0.7%
Yellowstone	$3,688,984	$3,747,650	1.6%
Statewide	**$141,004,840**	**$141,408,755**	**0.3%**

SB 168 #2

TABLE 2

Change in Estimated Taxes Paid --- 1st YEAR PHASE IN (25%)
Current vs. Proposal (SB 168, 2nd reading)

County	Impact to County Ag Land Estimated Taxes Paid Current	Proposed (25% Phase in)	Percent Change
Beaverhead	$743,319	$803,610	8.1%
Big Horn	727,199	$737,778	1.5%
Blaine	1,033,762	$1,056,169	2.2%
Broadwater	245,570	$253,039	3.0%
Carbon	654,443	$666,965	1.9%
Carter	478,411	$501,927	4.9%
Cascade	1,803,254	$1,766,160	-2.1%
Chouteau	4,035,703	$3,789,129	-6.1%
Custer	835,263	$880,268	5.4%
Daniels	860,716	$866,926	0.7%
Dawson	1,072,082	$1,101,030	2.7%
Deer Lodge	103,897	$114,642	10.3%
Fallon	228,657	$237,644	3.9%
Fergus	1,991,948	$1,961,576	-1.5%
Flathead	537,480	$552,683	2.8%
Gallatin	886,696	$890,308	0.4%
Garfield	776,912	$807,130	3.9%
Glacier	790,050	$758,615	-4.0%
Golden Valley	278,998	$284,683	2.0%
Granite	151,748	$160,595	5.8%
Hill	1,865,800	$1,845,604	-1.1%
Jefferson	150,122	$159,054	5.9%
Judith Basin	918,728	$908,563	-1.1%
Lake	365,544	$402,705	10.2%
Lewis And Clark	547,517	$557,737	1.9%
Liberty	1,058,777	$1,040,435	-1.7%
Lincoln	31,828	$34,352	7.9%
Madison	509,968	$524,642	2.9%
McCone	1,081,991	$1,090,712	0.8%
Meagher	334,849	$346,830	3.6%
Mineral	22,092	$23,137	4.7%
Missoula	173,890	$183,466	5.5%
Musselshell	349,823	$355,214	1.5%
Park	400,520	$400,592	0.0%
Petroleum	254,450	$264,323	3.9%
Phillips	766,831	$776,721	1.3%
Pondera	1,489,265	$1,437,651	-3.5%
Powder River	579,635	$595,765	2.8%
Powell	258,827	$282,988	9.3%
Prairie	302,341	$316,996	4.8%
Ravalli	323,562	$337,197	4.2%
Richland	808,552	$835,598	3.3%
Roosevelt	905,801	$901,322	-0.5%
Rosebud	389,043	$403,450	3.7%
Sanders	93,000	$100,178	7.7%
Sheridan	824,679	$822,573	-0.3%
Silver Bow	80,857	$85,161	5.3%
Stillwater	627,291	$624,965	-0.4%
Sweet Grass	401,309	$409,216	2.0%
Teton	1,614,364	$1,582,455	-2.0%
Toole	1,233,240	$1,197,255	-2.9%
Treasure	201,908	$217,173	7.6%
Valley	1,532,441	$1,539,892	0.5%
Wheatland	376,277	$385,872	2.6%
Wibaux	229,168	$230,767	0.7%
Yellowstone	1,128,830	$1,146,782	1.6%
Statewide	**$40,469,228**	**$40,558,217**	**0.2%**

* NOTE: Estimated taxes are calculated using average state, county and school mill levies.

SB 168-#2

TABLE 3

Change in Taxable Value Per Acre --- 1st YEAR PHASE IN (25%)
Current to Proposal (SB 168 2nd Reading)

		Taxable Value Per Acre		
Land Type	Acres	Current	Proposed (25% Phase in)	Percent Change
Irrigated	1,466,922	$9.17	$10.22	11.5%
Grazing	35,659,230	$1.06	$1.08	2.5%
Continously Cropped Hay	1,059,590	$5.22	$6.15	17.8%
Non Irrigated Summer Fallow	12,162,308	$6.83	$6.58	−3.7%
Non Irrigated Continously Cropped	69,947	$16.67	$16.54	−0.8%
Statewide	50,417,997	$2.80	$2.80	0.3%

SB 168 #2

APPROVED BY COMMITTEE
ON TAXATION

SENATE BILL NO. 168

INTRODUCED BY BECK, M. HANSON, GRINDE, KELLER,
GRADY, HIBBARD, DEBRUYCKER, HARP,
CRIPPEN, MESAROS, LYNCH

BY REQUEST OF THE DEPARTMENT OF REVENUE

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE TAXATION OF AGRICULTURAL LAND; REVISING THE METHOD OF VALUING AGRICULTURAL LANDS IN CLASS THREE PROPERTY FOR PROPERTY TAX PURPOSES; PROVIDING FOR THE DETERMINATION OF NET INCOME FROM AGRICULTURAL LAND; 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~~ TAXABLE VALUE OF AGRICULTURAL LANDS; TAXING CLASS THREE PROPERTY AT THE RATE APPLICABLE TO CLASS FOUR PROPERTY; ESTABLISHING AN ADVISORY COMMITTEE TO REVIEW ALL RELEVANT COSTS, INCLUDING WATER COSTS, IN DETERMINING THE PRODUCTIVE CAPACITY OF IRRIGATED LANDS; ELIMINATING CLASS ELEVEN FARMSTEAD PROPERTY BY COMBINING IT WITH CLASS FOUR PROPERTY; AMENDING SECTIONS 7-13-2527, 15-6-133, 15-6-134, 15-7-201, ~~AND--15-8-111,~~ 15-10-402, AND 15-10-412, MCA; REPEALING SECTION 15-6-144, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, AN APPLICABILITY DATE, AND A TERMINATION DATE."

WHEREAS, THE MONTANA LEGISLATURE ADOPTED A PLAN IN 1975 FOR CYCLICAL REAPPRAISAL OF NONAGRICULTURAL LAND; AND

WHEREAS, NONAGRICULTURAL LAND HAS BEEN THROUGH THREE REAPPRAISAL CYCLES SINCE 1972, WITH THE VALUES OF THE THIRD CYCLE BECOMING EFFECTIVE JANUARY 1, 1993; AND

WHEREAS, AGRICULTURAL LAND HAS NOT BEEN REAPPRAISED SINCE 1963 AND THE MONTANA LEGISLATURE HAS DETERMINED THAT REAPPRAISAL OF AGRICULTURAL LAND IS NECESSARY FOR THE OVERALL IMPROVEMENT OF MONTANA'S PROPERTY TAX SYSTEM; AND

WHEREAS, THE MONTANA LEGISLATURE HAS TRADITIONALLY KEPT THE TOTAL TAXABLE VALUE OF AN ENTIRE CLASS OF PROPERTY RELATIVELY CONSTANT BETWEEN REAPPRAISAL CYCLES BY ADJUSTING TAX RATES; AND

WHEREAS, THE MONTANA LEGISLATURE DESIRES TO KEEP THE TOTAL TAXABLE VALUE OF AGRICULTURAL LAND CONSTANT DESPITE REAPPRAISAL; AND

WHEREAS, THE NEW METHOD OF DETERMINING PRODUCTIVE CAPACITY OF VARIOUS SUBCLASSES OF AGRICULTURAL LAND RESULTS IN SIGNIFICANT INCREASES OR DECREASES IN INDIVIDUAL REAPPRAISED VALUES; AND

WHEREAS, THE MONTANA LEGISLATURE FINDS THAT IT IS EQUITABLE AND DESIRABLE FOR THE TAX SYSTEM AS A WHOLE THAT THE INCREASES AND DECREASES IN TAXABLE VALUE OF AGRICULTURAL LAND BE PHASED IN OVER THE APPRAISAL CYCLE; AND

WHEREAS, THE MONTANA LEGISLATURE CONSIDERS IT

SECOND READING

APPROPRIATE TO PROVIDE FOR THE REAPPRAISAL OF AGRICULTURAL LAND AND TO PROVIDE FOR A PHASEIN OF THE CHANGES IN TAXABLE VALUES OVER THE REAPPRAISAL CYCLE.

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

Section 1. Section 15-6-133, MCA, is amended to read:

"15-6-133. Class three property -- description -- taxable percentage. (1) Class three property includes:

(a) agricultural land as defined in 15-7-202;

(b) nonproductive patented mining claims outside the limits of an incorporated city or town held by an owner for the ultimate purpose of developing the mineral interests on the property. For the purposes of this subsection (1)(b), the following provisions apply:

(i) The claim may not include any property that is used for residential purposes, recreational purposes as described in 70-16-301, or commercial purposes as defined in 15-1-101 or any property the surface of which is being used for other than mining purposes or has a separate and independent value for ~~such~~ other purposes.

(ii) Improvements to the property that would not disqualify the parcel are taxed as otherwise provided in this title, including that portion of the land upon which ~~such~~ the improvements are located and that is reasonably required for the use of the improvements.

(iii) Nonproductive patented mining claim property must be valued as if the land were devoted to agricultural grazing use.

(2) Class three property is taxed at the taxable percentage rate ~~"P"-of-its-productive-capacity~~ applicable to class four property, as provided in 15-6-134(2)(a).

~~(3)--Until-July-1,-1986,-the-taxable-percentage-rate-"P"-for-class-three-property-is-30%.~~

~~(4)--Prior--to--July--1,-1986,-the-department-of-revenue-shall-determine-the-taxable-percentage-rate--"P"--applicable-to--class-three-property-for-the-revaluation-cycle-beginning-January-1,-1986,-as-follows:~~

~~(a)--The-director-of-the--department--of--revenue--shall-certify--to-the-governor-before-July-1,-1986,-the-percentage-by-which-the-appraised-value-of-all-property--in--the--state-classified--under--class--three--as--of-January-1,-1986,-has-increased-due-to-the-revaluation-conducted--under--15-7-111.-This---figure---is---the---"certified--statewide--percentage-increase".~~

~~(b)--The-taxable-value-of-property--in--class--three--is-determined---as---a--function--of--the--certified--statewide-percentage-increase--in--accordance--with--the--table--shown-below.~~

~~(c)--This-table-limits-the-statewide-increase-in-taxable-valuation--resulting--from-reappraisal-to-0%.-In-calculating~~

~~the percentage increase, the department may not consider agricultural use changes during calendar year 1985.~~

~~(d) The taxable percentage must be calculated by interpolation to coincide with the nearest whole number certified statewide percentage increase from the following table:~~

~~Certified Statewide Percentage Increase~~	~~Class Three Taxable Percentage "P"~~
~~-0~~	~~30.00~~
~~10~~	~~27.27~~
~~20~~	~~25.00~~
~~30~~	~~23.08~~
~~40~~	~~21.43~~
~~50~~	~~20.00~~

~~(5) After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a revaluation has been made as provided in 15-7-111."~~

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

"15-7-201. **(Temporary -- applicable to 1986 land valuation schedules) Legislative intent -- value of agricultural property.** (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not ~~be~~ limited to irrigated use, nonirrigated use, and grazing use. Within each class, land ~~shall~~ must 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,~~ that the department may consolidate tillable irrigated land classes. With relation to irrigated land, water costs ~~shall~~ must be taken into consideration, except at no time may the resulting value of irrigated land be reduced below the value ~~such~~ that the land would have if it were not irrigated.

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

15-7-201. **(Applicable to ~~1993~~ 1994 and later land valuation schedules) Legislative intent -- value of agricultural property.** (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not be limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land ~~shall--be-assessed-at-a value-that-is-fairly-based-on-its-productive--capacity~~ 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 ~~the-date--that--the--revaluation cycle--commencing--January-2,-1986,-takes-effect-pursuant-to 15-7-111~~ 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 ~~by-the-department-using-the-formula-I-=-(P---C)-Y~~

~~where,~~

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

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

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

~~(iv)-Y-is-the-yield-in-units-per--acre~~ as provided in subsection (5); and

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

~~(5)--Net-income-shall-be:~~

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

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

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

(b) Net income must be based on commodity price data, grazing fees, crop share arrangements, and ~~production~~ WATER cost data for the base period.

(I) Commodity price data~~,~~ AND grazing fees~~,---and production--cost--data~~ for the base period must be obtained from the Montana Agricultural Statistics and from the Montana crop and livestock reporting service.

(II) CROP SHARE ARRANGEMENTS ARE BASED ON THE RENTAL VALUE OF THE LAND AND AVERAGE LANDOWNER COSTS.

(III) ALLOWABLE WATER COSTS CONSIST ONLY OF THE PER-ACRE LABOR COSTS AND ENERGY COSTS OF IRRIGATION.

(A) LABOR COSTS ARE ZERO FOR PIVOT SPRINKLER IRRIGATION SYSTEMS; $4.50 AN ACRE FOR TOW LINES, SIDE ROLL, AND LATERAL SPRINKLER IRRIGATION SYSTEMS; AND $9 AN ACRE FOR HAND-MOVED AND FLOOD IRRIGATION SYSTEMS.

(B) ENERGY COSTS MUST BE BASED ON PER-ACRE ENERGY COSTS INCURRED IN 1992. BY JULY 1, 1993, AN OWNER OF IRRIGATED LAND SHALL PROVIDE THE DEPARTMENT, ON A FORM PRESCRIBED BY THE DEPARTMENT, WITH ENERGY COSTS INCURRED IN 1992. IN THE EVENT THAT NO ENERGY COSTS WERE INCURRED IN 1992, THE OWNER OF IRRIGATED LAND SHALL PROVIDE THE DEPARTMENT WITH ENERGY COSTS FROM THE MOST RECENT YEAR AVAILABLE. THE DEPARTMENT SHALL ADJUST THE MOST RECENT YEAR'S ENERGY COSTS TO REFLECT COSTS IN 1992.

(c) The base crop for valuation of irrigated land is alfalfa HAY, ADJUSTED TO 80% OF SALES PRICE, and the base

crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is the average grazing fee for a 1,000-pound animal.

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

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

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

~~(b)--production--cost--data-reflecting-average-costs-per unit-of-measure-paid-by-Montana-farmers-and--ranchers.--Such data--may--be--obtained--from--all-geographical-areas-of-the state.-Such-production-costs-may-include-costs--relating--to~~

~~irrigation, fertilization, fuel, seed, weed control, hired labor, management, insurance, repairs and maintenance, and miscellaneous items. Variations in specific production cost data, when affected by different levels of production, and typical rental arrangements may be considered.~~

(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 ~~department~~ GOVERNOR shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data ~~prepared by Montana state university and advise the department on the implementation of subsections (2) through (6)~~ 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.

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

~~(9) The capitalization rate shall be calculated for~~

~~each year of the base period and is the annual average interest rate on agricultural loans as reported by the federal land bank association of Spokane, Washington, plus the effective tax rate in Montana.~~

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

~~NEW SECTION. Section 3. Phasein of agricultural land values. The increase or decrease in productive capacity values of agricultural land determined in 15-7-201 must be phased in over two reappraisal cycles, as follows:~~

~~(1) For the revaluation cycle beginning January 1, 1994, and ending December 31, 1996, the assessed value of agricultural land in each land use and production category must increase or decrease by 50% of the difference between the productive capacity value of agricultural land determined in 15-7-201 for 1994 land valuation schedules and the assessed value of agricultural land as of December 31, 1993.~~

~~(2) Beginning January 1, 1997, the assessed value of agricultural land in each land use and production category must be 100% of the productive capacity value of agricultural land determined in 15-7-201.~~

~~NEW SECTION. Section 4. Advisory committee -- review of water costs. The department of revenue shall appoint an advisory committee knowledgeable in irrigated agricultural operations to review water costs associated with irrigated lands and to recommend to the department how water costs should be considered for determining the irrigated land valuation schedules that take effect January 1, 1997. The committee shall present its recommendations to the department by January 1, 1995.~~

~~Section 5. Section 15-8-111, MCA, is amended to read:~~

~~"15-8-111. Assessment -- market value standard -- exceptions. (1) All taxable property must be assessed at 100% of its market value except as otherwise provided.~~

~~(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.~~

~~(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.~~

~~(c) Except as provided in subsection (3), the market value of all motor trucks; agricultural tools, implements, and machinery,; and vehicles of all kinds, including but not~~

~~limited to boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The department of revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.~~

~~(3) The department of revenue or its agents may not adopt a lower or different standard of value from market value in making the official assessment and appraisal of the value of property, except:~~

~~(a) the wholesale value for agricultural implements and machinery is the loan value as shown in the Official Guide, Tractor and Farm Equipment, published by the national farm and power equipment dealers association, St. Louis, Missouri;~~

~~(b) for agricultural implements and machinery not listed in the official guide, the department shall prepare a supplemental manual where the values reflect the same depreciation as those found in the official guide; and~~

~~(c) as otherwise authorized in Title 15 and Title 61.~~

~~(4) For purposes of taxation, assessed value is the same as appraised value.~~

~~(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.~~

~~(6)--The---assessed--value--of--properties--in--15-6-131 through-15-6-133-is-as-follows:~~

~~(a)--Properties--in--15-6-131,--under--class--one,---are assessed--at-100%-of-the-annual-net-proceeds-after-deducting the-expenses-specified--and--allowed--by--15-23-503--or,--if applicable,-as-provided-in-15-23-515-or-15-23-516.~~

~~(b)--Properties---in--15-6-132,--under--class--two,--are assessed-at-100%-of-the-annual-gross-proceeds.~~

~~(c)--Properties-in--15-6-133,--under--class--three,--are assessed-at-100%-of-the-productive-capacity-of-the-lands,-as provided--in--[section--3], when--valued--for--agricultural purposes.-All-lands-that-meet-the-qualifications-of-15-7-202 are-valued-as-agricultural-lands-for-tax-purposes.~~

~~(d)--Beginning--January-1,-1990,-and-ending-December-31, 1993,-properties-in-15-6-143,-under-class-ten,-are--assessed at--100%--of--the--combined--appraised-value-of-the-standing timber-and-grazing-productivity-of-the-land-when--valued--as timberland.~~

~~(e)--Beginning--January-1,-1994,-properties-in-15-6-143, under--class--ten,--are--assessed--at--100%--of--the--forest productivity-value-of-the-land-when-valued-as-forest-land.~~

~~(7)--Land-and-the-improvements--thereon--are--separately assessed-when-any-of-the-following-conditions-occur:~~

~~(a)--ownership--of--the--improvements--is-different-from ownership-of-the-land;~~

~~(b)--the-taxpayer-makes-a-written-request;-or~~

~~(c)--the-land-is-outside-an-incorporated-city--or--town.~~ ~~(Subsection--(6)(d)-terminates-January-1,-1994--sec.-19,-Ch. 783,-L.-1991.)"~~

NEW SECTION. **SECTION 3.** PHASEIN OF THE TAXABLE VALUE OF AGRICULTURAL LAND. THE INCREASE OR DECREASE IN TAXABLE VALUE OF AGRICULTURAL LAND RESULTING FROM THE CHANGE IN THE METHOD OF DETERMINING PRODUCTIVE CAPACITY VALUE UNDER 15-7-201 MUST BE PHASED IN BEGINNING JANUARY 1, 1994, AS FOLLOWS:

(1) FOR THE YEAR BEGINNING JANUARY 1, 1994, AND ENDING DECEMBER 31, 1994, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 25% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(2) FOR THE YEAR BEGINNING JANUARY 1, 1995, AND ENDING DECEMBER 31, 1995, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 50% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE

VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(3) FOR THE YEAR BEGINNING JANUARY 1, 1996, AND ENDING DECEMBER 31, 1996, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 75% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(4) BEGINNING JANUARY 1, 1997, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY IS EQUAL TO 100% OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE.

NEW SECTION. **SECTION 4.** ADVISORY COMMITTEE -- REVIEW OF WATER COSTS AND CROP SHARE ARRANGEMENTS. (1) THE GOVERNOR SHALL APPOINT AN ADVISORY COMMITTEE TO REVIEW WATER COSTS, CROP SHARE ARRANGEMENTS, AND OTHER ISSUES INVOLVING THE ASSESSMENT AND VALUATION OF AGRICULTURAL LAND. THE MEMBERSHIP OF THE COMMITTEE MUST INCLUDE:

(A) ONE MEMBER REPRESENTING URBAN INTERESTS;

(B) TWO MEMBERS REPRESENTING WATER USERS, ONE OF WHOM MUST BE AN INDIVIDUAL WATER USER AND ONE OF WHOM MUST BE A REPRESENTATIVE OF AN ORGANIZED IRRIGATION DISTRICT;

(C) ONE MEMBER REPRESENTING GRAZING INTERESTS;

(D) ONE MEMBER REPRESENTING NONIRRIGATED CROPLAND INTERESTS;

(E) ONE MEMBER REPRESENTING MULTIPLE-USE FARMERS AND RANCHERS;

(F) ONE MEMBER REPRESENTING FINANCIAL INSTITUTIONS;

(G) TWO MEMBERS OF THE LEGISLATURE, NOT OF THE SAME POLITICAL PARTY, ONE OF WHOM MUST BE A MEMBER OF THE SENATE AND ONE OF WHOM MUST BE A MEMBER OF THE HOUSE OF REPRESENTATIVES; AND

(H) ONE MEMBER REPRESENTING LOCAL GOVERNMENT.

(2) THE COMMITTEE SHALL REVIEW WATER COSTS AND CROP SHARE ARRANGEMENTS ASSOCIATED WITH IRRIGATED LANDS AND RECOMMEND TO THE DEPARTMENT OF REVENUE BY JULY 1, 1994, HOW WATER COSTS AND CROP SHARE ARRANGEMENTS SHOULD BE CONSIDERED FOR THE VALUATION OF IRRIGATED LAND. THE COMMITTEE MAY RECOMMEND THE ADJUSTMENT IN THE VALUATION OF OTHER AGRICULTURAL LAND CLASSES IN ORDER TO PREVENT A REDUCTION IN THE LEVEL OF STATEWIDE TAXABLE VALUATION OF AGRICULTURAL LAND.

SECTION 5. SECTION 7-13-2527, MCA, IS AMENDED TO READ:

"**7-13-2527. List of property owners.** (1) A copy of the order creating the district ~~shall~~ must be delivered to the county assessor of each county within the district.

(2) The assessor shall, on or before August 1 of ~~any given~~ each year, prepare and certify a list of all persons

owning class four ~~or-class-eleven~~ property within ~~such~~ the district and deliver a copy of ~~such~~ the list to the board of trustees of ~~said~~ the district."

SECTION 6. SECTION 15-6-134, MCA, IS AMENDED TO READ:

"15-6-134. Class four property -- description -- taxable percentage. (1) Class four property includes:

(a) all land except that specifically included in another class;

(b) all improvements, including trailers or mobile homes used as a residence, except those specifically included in another class;

(c) the first $80,000 or less of the market value of any improvement on real property, including trailers or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income or loss and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $10,000 for a single person or $12,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii);

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist

of at least 9 holes and not less than 3,000 lineal yards~~.~~; and

(e) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202(2), including 1 acre of real property beneath the agricultural improvements. The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) Except as provided in 15-24-1402 or 15-24-1501, property described in subsections (1)(a), ~~and~~ (1)(b), and (1)(e) is taxed at 3.86% of its market value.

(b) (i) Property described in subsection (1)(c) is taxed at 3.86% of its market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$ 0 - $ 1,000	$ 0 - $ 1,200	0%
1,001 - 2,000	1,201 - 2,400	10%
2,001 - 3,000	2,401 - 3,600	20%
3,001 - 4,000	3,601 - 4,800	30%
4,001 - 5,000	4,801 - 6,000	40%
5,001 - 6,000	6,001 - 7,200	50%
6,001 - 7,000	7,201 - 8,400	60%

7,001 - 8,000	8,401 - 9,600	70%
8,001 - 9,000	9,601 - 10,800	80%
9,001 - 10,000	10,801 - 12,000	90%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1986; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable percentage rate established in subsection (2)(a).

(3) After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate for class four property until a revaluation has been made as provided in 15-7-111.

(4) Within the meaning of comparable property as

defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property, and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

SECTION 7. SECTION 15-10-402, MCA, IS AMENDED TO READ:

"**15-10-402. Property tax limited to 1986 levels.** (1) Except as provided in subsections (2) and (3), the amount of taxes levied on property described in 15-6-133, 15-6-134, and 15-6-136~~,--and--15-6-144~~ may not, for any taxing jurisdiction, exceed the amount levied for taxable year 1986.

(2) The limitation contained in subsection (1) does not apply to levies for rural improvement districts, Title 7, chapter 12, part 21; special improvement districts, Title 7, chapter 12, part 41; elementary and high school districts, Title 20; juvenile detention programs authorized under 7-6-502; or bonded indebtedness.

(3) New construction or improvements to or deletions from property described in subsection (1) are subject to taxation at 1986 levels.

(4) As used in this section, the "amount of taxes levied" and the "amount levied" mean the actual dollar amount of taxes imposed on an individual piece of property, notwithstanding an increase or decrease in value due to

inflation, reappraisal, adjustments in the percentage multiplier used to convert appraised value to taxable value, changes in the number of mills levied, or increase or decrease in the value of a mill."

SECTION 8. SECTION 15-10-412, MCA, IS AMENDED TO READ:

"15-10-412. **Property tax limited to 1986 levels -- clarification -- extension to all property classes.** Section 15-10-402 is interpreted and clarified as follows:

(1) The limitation to 1986 levels is extended to apply to all classes of property described in Title 15, chapter 6, part 1.

(2) The limitation on the amount of taxes levied is interpreted to mean that, except as otherwise provided in this section, the actual tax liability for an individual property is capped at the dollar amount due in each taxing unit for the 1986 tax year. In tax years thereafter, the property must be taxed in each taxing unit at the 1986 cap or the product of the taxable value and mills levied, whichever is less for each taxing unit, except in a taxing unit that levied a tax in tax years 1983 through 1985 but did not levy a tax in 1986, in which case the actual tax liability for an individual property is capped at the dollar amount due in that taxing unit for the 1985 tax year.

(3) The limitation on the amount of taxes levied does not **mean-that-no** prohibit a further increase **may-be-made** in

the total taxable valuation of a taxing unit as a result of:

(a) annexation of real property and improvements into a taxing unit;

(b) construction, expansion, or remodeling of improvements;

(c) transfer of property into a taxing unit;

(d) subdivision of real property;

(e) reclassification of property;

(f) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(g) transfer of property from tax-exempt to taxable status; or

(h) revaluations caused by:

(i) cyclical reappraisal; or

(ii) expansion, addition, replacement, or remodeling of improvements.

(4) The limitation on the amount of taxes levied does not **mean-that-no** prohibit a further increase **may-be-made** in the taxable valuation or in the actual tax liability on individual property in each class as a result of:

(a) a revaluation caused by:

(i) construction, expansion, replacement, or remodeling of improvements that adds value to the property; or

(ii) cyclical reappraisal;

(b) transfer of property into a taxing unit;

(c) reclassification of property;

(d) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(e) annexation of the individual property into a new taxing unit; or

(f) conversion of the individual property from tax-exempt to taxable status.

(5) Property in ~~classes~~ class four ~~and-eleven~~ is valued according to the procedures used in 1986, including the designation of 1982 as the base year, until the reappraisal cycle beginning January 1, 1986, is completed and new valuations are placed on the tax rolls and a new base year designated, if the property is:

(a) new construction;

(b) expanded, deleted, replaced, or remodeled improvements;

(c) annexed property; or

(d) property converted from tax-exempt to taxable status.

(6) Property described in subsections (5)(a) through (5)(d) that is not class four ~~or-class--eleven~~ property is valued according to the procedures used in 1986 but is also subject to the dollar cap in each taxing unit based on 1986

mills levied.

(7) The limitation on the amount of taxes, as clarified in this section, is intended to leave the property appraisal and valuation methodology of the department of revenue intact. Determinations of county classifications, salaries of local government officers, and all other matters in which total taxable valuation is an integral component are not affected by 15-10-401 and 15-10-402 except for the use of taxable valuation in fixing tax levies. In fixing tax levies, the taxing units of local government may anticipate the deficiency in revenues resulting from the tax limitations in 15-10-401 and 15-10-402, while understanding that regardless of the amount of mills levied, a taxpayer's liability may not exceed the dollar amount due in each taxing unit for the 1986 tax year unless:

(a) the taxing unit's taxable valuation decreases by 5% or more from the 1986 tax year. If a taxing unit's taxable valuation decreases by 5% or more from the 1986 tax year, it may levy additional mills to compensate for the decreased taxable valuation, but ~~in-no-case-may~~ the mills levied may not exceed a number calculated to equal the revenue from property taxes for the 1986 tax year in that taxing unit.

(b) a levy authorized under Title 20 raised less revenue in 1986 than was raised in either 1984 or 1985, in which case the taxing unit may, after approval by the voters in the taxing unit, raise each year thereafter an additional number of mills but may not levy more revenue than the 3-year average of revenue raised for that purpose during 1984, 1985, and 1986;

(c) a levy authorized in 50-2-111 that was made in 1986 was for less than the number of mills levied in either 1984 or 1985, in which case the taxing unit may, after approval by the voters in the taxing unit, levy each year thereafter an additional number of mills but may not levy more than the 3-year average number of mills levied for that purpose during 1984, 1985, and 1986.

(8) The limitation on the amount of taxes levied does not apply to the following levy or special assessment categories, whether or not they are based on commitments made before or after approval of 15-10-401 and 15-10-402:

(a) rural improvement districts;

(b) special improvement districts;

(c) levies pledged for the repayment of bonded indebtedness, including tax increment bonds;

(d) city street maintenance districts;

(e) tax increment financing districts;

(f) satisfaction of judgments against a taxing unit;

(g) street lighting assessments;

(h) revolving funds to support any categories specified in this subsection (8);

(i) levies for economic development authorized pursuant to 90-5-112(4);

(j) levies authorized under 7-6-502 for juvenile detention programs; and

(k) elementary and high school districts.

(9) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability following a resolution of the governing body of the taxing unit containing:

(a) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;

(b) an explanation of the nature of the financial emergency;

(c) an estimate of the amount of funding shortfall expected by the taxing unit;

(d) a statement that applicable fund balances are or by the end of the fiscal year will be depleted;

(e) a finding that there are no alternative sources of revenue;

(f) a summary of the alternatives that the governing body of the taxing unit has considered; and

(g) a statement of the need for the increased revenue and how it will be used.

(10) (a) The limitation on the amount of taxes levied

does not apply to levies required to address the funding of relief of suffering of inhabitants caused by famine, conflagration, or other public calamity.

(b) The limitation set forth in this chapter on the amount of taxes levied does not apply to levies to support:

(i) a city-county board of health as provided in Title 50, chapter 2, if the governing bodies of the taxing units served by the board of health determine, after a public hearing, that public health programs require funds to ensure the public health. A levy for the support of a local board of health may not exceed the 5-mill limit established in 50-2-111.

(ii) county, city, or town ambulance services authorized by a vote of the electorate under 7-34-102(2).

(11) The limitation on the amount of taxes levied by a taxing jurisdiction subject to a statutory maximum mill levy does not prevent a taxing jurisdiction from increasing its number of mills beyond the statutory maximum mill levy to produce revenue equal to its 1986 revenue.

(12) The limitation on the amount of taxes levied does not apply to a levy increase to repay taxes paid under protest in accordance with 15-1-402."

NEW SECTION. **SECTION 9.** REPEALER. SECTION 15-6-144, MCA, IS REPEALED.

NEW SECTION. **Section 10.** **Codification instruction.** [Sections 3 and 4] are intended to be codified as an integral part of Title 15, chapter 7, part 2, and the provisions of Title 15, chapter 7, part 2, apply to [sections 3 and 4].

NEW SECTION. **Section 11.** **Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 12.** **Termination.** [Section 4] terminates January 1, ~~1997~~ 1995.

NEW SECTION. **Section 13.** **Effective date -- applicability.** [This act] is effective on passage and approval and applies to tax years beginning on or after January 1, 1994.

-End-

SENATE BILL NO. 168

INTRODUCED BY BECK, M. HANSON, GRINDE, KELLER,

GRADY, HIBBARD, DEBRUYCKER, HARP,

CRIPPEN, MESAROS, LYNCH

BY REQUEST OF THE DEPARTMENT OF REVENUE

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE TAXATION OF AGRICULTURAL LAND; REVISING THE METHOD OF VALUING AGRICULTURAL LANDS IN CLASS THREE PROPERTY FOR PROPERTY TAX PURPOSES; PROVIDING FOR THE DETERMINATION OF NET INCOME FROM AGRICULTURAL LAND; 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~~ TAXABLE VALUE OF AGRICULTURAL LANDS; TAXING CLASS THREE PROPERTY AT THE RATE APPLICABLE TO CLASS FOUR PROPERTY; ESTABLISHING AN ADVISORY COMMITTEE TO REVIEW ALL RELEVANT COSTS, INCLUDING WATER COSTS, IN DETERMINING THE PRODUCTIVE CAPACITY OF IRRIGATED LANDS; ELIMINATING CLASS ELEVEN FARMSTEAD PROPERTY BY COMBINING IT WITH CLASS FOUR PROPERTY; AMENDING SECTIONS 7-13-2527, 15-6-133, 15-6-134, 15-7-201, ~~AND 15-8-111,~~ 15-10-402, AND 15-10-412, MCA; REPEALING SECTION 15-6-144, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, AN APPLICABILITY DATE, AND A TERMINATION DATE."

WHEREAS, THE MONTANA LEGISLATURE ADOPTED A PLAN IN 1975 FOR CYCLICAL REAPPRAISAL OF NONAGRICULTURAL LAND; AND

WHEREAS, NONAGRICULTURAL LAND HAS BEEN THROUGH THREE REAPPRAISAL CYCLES SINCE 1972, WITH THE VALUES OF THE THIRD CYCLE BECOMING EFFECTIVE JANUARY 1, 1993; AND

WHEREAS, AGRICULTURAL LAND HAS NOT BEEN REAPPRAISED SINCE 1963 AND THE MONTANA LEGISLATURE HAS DETERMINED THAT REAPPRAISAL OF AGRICULTURAL LAND IS NECESSARY FOR THE OVERALL IMPROVEMENT OF MONTANA'S PROPERTY TAX SYSTEM; AND

WHEREAS, THE MONTANA LEGISLATURE HAS TRADITIONALLY KEPT THE TOTAL TAXABLE VALUE OF AN ENTIRE CLASS OF PROPERTY RELATIVELY CONSTANT BETWEEN REAPPRAISAL CYCLES BY ADJUSTING TAX RATES; AND

WHEREAS, THE MONTANA LEGISLATURE DESIRES TO KEEP THE TOTAL TAXABLE VALUE OF AGRICULTURAL LAND CONSTANT DESPITE REAPPRAISAL; AND

WHEREAS, THE NEW METHOD OF DETERMINING PRODUCTIVE CAPACITY OF VARIOUS SUBCLASSES OF AGRICULTURAL LAND RESULTS IN SIGNIFICANT INCREASES OR DECREASES IN INDIVIDUAL REAPPRAISED VALUES; AND

THERE ARE NO CHANGES IN THIS BILL AND WILL NOT BE REPRINTED. PLEASE REFER TO YELLOW COPY FOR COMPLETE TEXT.

THIRD READING

SENATE BILL NO. 168

INTRODUCED BY BECK, M. HANSON, GRINDE, KELLER, GRADY, HIBBARD, DEBRUYCKER, HARP, CRIPPEN, MESAROS, LYNCH

BY REQUEST OF THE DEPARTMENT OF REVENUE

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE TAXATION OF AGRICULTURAL LAND; REVISING THE METHOD OF VALUING AGRICULTURAL LANDS IN CLASS THREE PROPERTY FOR PROPERTY TAX PURPOSES; PROVIDING FOR THE DETERMINATION OF NET INCOME FROM AGRICULTURAL LAND; 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~~ TAXABLE VALUE OF AGRICULTURAL LANDS; TAXING CLASS THREE PROPERTY AT THE RATE APPLICABLE TO CLASS FOUR PROPERTY; ESTABLISHING AN ADVISORY COMMITTEE TO REVIEW ALL RELEVANT COSTS, INCLUDING WATER COSTS, IN DETERMINING THE PRODUCTIVE CAPACITY OF IRRIGATED LANDS; ELIMINATING CLASS ELEVEN FARMSTEAD PROPERTY BY COMBINING IT WITH CLASS FOUR PROPERTY; AMENDING SECTIONS 7-13-2527, 15-6-133, 15-6-134, 15-7-201, ~~AND--15-8-111,~~ 15-10-402, AND 15-10-412, MCA; REPEALING SECTION 15-6-144, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, AN APPLICABILITY DATE, AND A TERMINATION DATE."

WHEREAS, THE MONTANA LEGISLATURE ADOPTED A PLAN IN 1975 FOR CYCLICAL REAPPRAISAL OF NONAGRICULTURAL LAND; AND

WHEREAS, NONAGRICULTURAL LAND HAS BEEN THROUGH THREE REAPPRAISAL CYCLES SINCE 1972, WITH THE VALUES OF THE THIRD CYCLE BECOMING EFFECTIVE JANUARY 1, 1993; AND

WHEREAS, AGRICULTURAL LAND HAS NOT BEEN REAPPRAISED SINCE 1963 AND THE MONTANA LEGISLATURE HAS DETERMINED THAT REAPPRAISAL OF AGRICULTURAL LAND IS NECESSARY FOR THE OVERALL IMPROVEMENT OF MONTANA'S PROPERTY TAX SYSTEM; AND

WHEREAS, THE MONTANA LEGISLATURE HAS TRADITIONALLY KEPT THE TOTAL TAXABLE VALUE OF AN ENTIRE CLASS OF PROPERTY RELATIVELY CONSTANT BETWEEN REAPPRAISAL CYCLES BY ADJUSTING TAX RATES; AND

WHEREAS, THE MONTANA LEGISLATURE DESIRES TO KEEP THE TOTAL TAXABLE VALUE OF AGRICULTURAL LAND CONSTANT DESPITE REAPPRAISAL; AND

WHEREAS, THE NEW METHOD OF DETERMINING PRODUCTIVE CAPACITY OF VARIOUS SUBCLASSES OF AGRICULTURAL LAND RESULTS IN SIGNIFICANT INCREASES OR DECREASES IN INDIVIDUAL REAPPRAISED VALUES; AND

WHEREAS, THE MONTANA LEGISLATURE FINDS THAT IT IS EQUITABLE AND DESIRABLE FOR THE TAX SYSTEM AS A WHOLE THAT THE INCREASES AND DECREASES IN TAXABLE VALUE OF AGRICULTURAL LAND BE PHASED IN OVER THE APPRAISAL CYCLE; AND

WHEREAS, THE MONTANA LEGISLATURE CONSIDERS IT

REFERENCE BILL

APPROPRIATE TO PROVIDE FOR THE REAPPRAISAL OF AGRICULTURAL LAND AND TO PROVIDE FOR A PHASEIN OF THE CHANGES IN TAXABLE VALUES OVER THE REAPPRAISAL CYCLE.

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

Section 1. Section 15-6-133, MCA, is amended to read:

"15-6-133. Class three property -- description -- taxable percentage. (1) Class three property includes:

(a) agricultural land as defined in 15-7-202;

(b) nonproductive patented mining claims outside the limits of an incorporated city or town held by an owner for the ultimate purpose of developing the mineral interests on the property. For the purposes of this subsection (1)(b), the following provisions apply:

(i) The claim may not include any property that is used for residential purposes, recreational purposes as described in 70-16-301, or commercial purposes as defined in 15-1-101 or any property the surface of which is being used for other than mining purposes or has a separate and independent value for such other purposes.

(ii) Improvements to the property that would not disqualify the parcel are taxed as otherwise provided in this title, including that portion of the land upon which ~~such~~ the improvements are located and that is reasonably required for the use of the improvements.

(iii) Nonproductive patented mining claim property must be valued as if the land were devoted to agricultural grazing use.

(2) Class three property is taxed at the taxable percentage rate ~~"P"-of-its-productive-capacity~~ applicable to class four property, as provided in 15-6-134(2)(a).

~~(3)--Until-July-1,-1986,-the-taxable-percentage-rate-"P"-for-class-three-property-is-30%.~~

~~(4)--Prior--to--July--1,-1986,-the-department-of-revenue-shall-determine-the-taxable-percentage-rate--"P"--applicable-to--class-three-property-for-the-revaluation-cycle-beginning-January-1,-1986,-as-follows:~~

~~(a)--The-director-of-the--department--of--revenue--shall-certify--to-the-governor-before-July-1,-1986,-the-percentage-by-which-the-appraised-value-of-all-property--in--the--state-classified--under--class--three--as--of-January-1,-1986,-has-increased-due-to-the-revaluation-conducted--under--15-7-111.-This---figure---is---the---"certified--statewide--percentage-increase".~~

~~(b)--The-taxable-value-of-property--in--class--three--is-determined---as---a--function--of--the--certified--statewide-percentage-increase--in--accordance--with--the--table--shown-below.~~

~~(c)--This-table-limits-the-statewide-increase-in-taxable-valuation--resulting--from-reappraisal-to-0%.-In-calculating~~

~~the-percentage-increase,-the--department--may--not--consider agricultural-use-changes-during-calendar-year-1985.~~

~~(d)--The---taxable--percentage--must--be--calculated--by interpolation-to-coincide--with--the--nearest--whole--number certified--statewide--percentage-increase-from-the-following table:~~

~~Certified-Statewide Percentage-Increase~~	~~Class-Three-Taxable Percentage-"P"~~
~~-0~~	~~30.00~~
~~10~~	~~27.27~~
~~20~~	~~25.00~~
~~30~~	~~23.08~~
~~40~~	~~21.43~~
~~50~~	~~20.00~~

~~(5)--After-July-1,-1986,-no-adjustment-may--be--made--by the--department--to--the-taxable-percentage-rate-"P"-until-a revaluation-has-been-made-as-provided-in-15-7-111."~~

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

"**15-7-201. (Temporary -- applicable to 1986 land valuation schedules) Legislative intent -- value of agricultural property.** (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not be limited to irrigated use, nonirrigated use, and grazing use. Within each class, land ~~shall~~ must 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,~~ that the department may consolidate tillable irrigated land classes. With relation to irrigated land, water costs ~~shall~~ must be taken into consideration, except at no time may the resulting value of irrigated land be reduced below the value ~~such~~ that the land would have if it were not irrigated.

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

15-7-201. (Applicable to ~~1993~~ 1994 and later land valuation schedules) Legislative intent -- value of agricultural property. (1) ~~Since~~ Because the market value of many agricultural properties is based upon speculative purchases ~~which~~ that 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~~ must be classified according to its use, which classifications ~~shall~~ include but are not be limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land ~~shall be assessed at a value that is fairly based on its productive capacity~~ 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 ~~the date that the revaluation cycle commencing January 2, 1986, takes effect pursuant to 15-7-111~~ 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 ~~by the department using the formula I = (P - C) U~~

~~where:~~

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

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

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

~~(iv) U is the yield in units per acre~~ as provided in subsection (5); and

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

~~(5) Net income shall be:~~

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

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

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

(b) Net income must be based on commodity price data, grazing fees, crop share arrangements, and ~~production~~ WATER cost data for the base period.

(I) Commodity price data~~,~~ AND grazing fees~~,---and production--cost--data~~ for the base period must be obtained from the Montana Agricultural Statistics and from the Montana crop and livestock reporting service.

(II) CROP SHARE ARRANGEMENTS ARE BASED ON THE RENTAL VALUE OF THE LAND AND AVERAGE LANDOWNER COSTS.

(III) ALLOWABLE WATER COSTS CONSIST ONLY OF THE PER-ACRE LABOR COSTS AND ENERGY COSTS OF IRRIGATION.

(A) LABOR COSTS ARE ZERO FOR PIVOT SPRINKLER IRRIGATION SYSTEMS; $4.50 AN ACRE FOR TOW LINES, SIDE ROLL, AND LATERAL SPRINKLER IRRIGATION SYSTEMS; AND $9 AN ACRE FOR HAND-MOVED AND FLOOD IRRIGATION SYSTEMS.

(B) ENERGY COSTS MUST BE BASED ON PER-ACRE ENERGY COSTS INCURRED IN 1992. BY JULY 1, 1993, AN OWNER OF IRRIGATED LAND SHALL PROVIDE THE DEPARTMENT, ON A FORM PRESCRIBED BY THE DEPARTMENT, WITH ENERGY COSTS INCURRED IN 1992. IN THE EVENT THAT NO ENERGY COSTS WERE INCURRED IN 1992, THE OWNER OF IRRIGATED LAND SHALL PROVIDE THE DEPARTMENT WITH ENERGY COSTS FROM THE MOST RECENT YEAR AVAILABLE. THE DEPARTMENT SHALL ADJUST THE MOST RECENT YEAR'S ENERGY COSTS TO REFLECT COSTS IN 1992.

(c) The base crop for valuation of irrigated land is alfalfa HAY, ADJUSTED TO 80% OF SALES PRICE, and the base

crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is the average grazing fee for a 1,000-pound animal.

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

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

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

~~(b)--production--cost--data-reflecting-average-costs-per unit-of-measure-paid-by-Montana-farmers-and--ranchers.--Such data--may--be--obtained--from--all-geographical-areas-of-the state.-Such-production-costs-may-include-costs--relating--to~~

~~irrigation, fertilization, fuel, seed, weed control, hired labor, management, insurance, repairs and maintenance, and miscellaneous items. Variations in specific production cost data, when affected by different levels of production, and typical rental arrangements may be considered.~~

(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 ~~department~~ GOVERNOR shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data ~~prepared by Montana state university and advise the department on the implementation of subsections (2) through (6)~~ 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.

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

~~(9) The capitalization rate shall be calculated for~~

~~each year of the base period and is the annual average interest rate on agricultural loans as reported by the federal land bank association of Spokane, Washington, plus the effective tax rate in Montana.~~

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

~~NEW SECTION.~~ ~~Section 3.~~ ~~Phasein of agricultural land values. The increase or decrease in productive capacity values of agricultural land determined in 15-7-201 must be phased in over two reappraisal cycles, as follows:~~

~~(1) For the revaluation cycle beginning January 1, 1994, and ending December 31, 1996, the assessed value of agricultural land in each land use and production category must increase or decrease by 50% of the difference between the productive capacity value of agricultural land determined in 15-7-201 for 1994 land valuation schedules and the assessed value of agricultural land as of December 31, 1993.~~

~~(2) Beginning January 1, 1997, the assessed value of agricultural land in each land use and production category must be 100% of the productive capacity value of agricultural land determined in 15-7-201.~~

~~NEW SECTION.~~ ~~Section 4.~~ ~~Advisory committee -- review of water costs. The department of revenue shall appoint an advisory committee knowledgeable in irrigated agricultural operations to review water costs associated with irrigated lands and to recommend to the department how water costs should be considered for determining the irrigated land valuation schedules that take effect January 1, 1997. The committee shall present its recommendations to the department by January 1, 1995.~~

~~Section 5.~~ ~~Section 15-8-111, MCA, is amended to read:~~

~~"15-8-111. Assessment -- market value standard -- exceptions. (1) All taxable property must be assessed at 100% of its market value except as otherwise provided.~~

~~(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.~~

~~(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.~~

~~(c) Except as provided in subsection (3), the market value of all motor trucks, agricultural tools, implements, and machinery, and vehicles of all kinds, including but not~~

~~limited to boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The department of revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.~~

~~(3) The department of revenue or its agents may not adopt a lower or different standard of value from market value in making the official assessment and appraisal of the value of property, except:~~

~~(a) the wholesale value for agricultural implements and machinery is the loan value as shown in the Official Guide, Tractor and Farm Equipment, published by the national farm and power equipment dealers association, St. Louis, Missouri;~~

~~(b) for agricultural implements and machinery not listed in the official guide, the department shall prepare a supplemental manual where the values reflect the same depreciation as those found in the official guide; and~~

~~(c) as otherwise authorized in Title 15 and Title 61.~~

~~(4) For purposes of taxation, assessed value is the same as appraised value.~~

~~(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.~~

~~(6)--The---assessed--value--of--properties--in--15-6-131 through-15-6-133-is-as-follows:~~

~~(a)--Properties--in--15-6-131,--under--class--one,---are assessed--at-100%-of-the-annual-net-proceeds-after-deducting the-expenses-specified--and--allowed--by--15-23-503--or,--if applicable,-as-provided-in-15-23-515-or-15-23-516.~~

~~(b)--Properties---in--15-6-132,--under--class--two,--are assessed-at-100%-of-the-annual-gross-proceeds.~~

~~(c)--Properties-in--15-6-133,--under--class--three,--are assessed-at-100%-of-the-productive-capacity-of-the-lands,-as provided--in--[section--3], when--valued--for--agricultural purposes.-All-lands-that-meet-the-qualifications-of-15-7-202 are-valued-as-agricultural-lands-for-tax-purposes.~~

~~(d)--Beginning--January-1,-1990,-and-ending-December-31, 1993,-properties-in-15-6-143,-under-class-ten,-are--assessed at--100%--of--the--combined--appraised-value-of-the-standing timber-and-grazing-productivity-of-the-land-when--valued--as timberland.~~

~~(e)--Beginning--January-1,-1994,-properties-in-15-6-143, under--class--ten,--are--assessed--at--100%--of--the--forest productivity-value-of-the-land-when-valued-as-forest-land.~~

~~(7)--Land-and-the-improvements--thereon--are--separately assessed-when-any-of-the-following-conditions-occur:~~

~~(a)--ownership--of--the--improvements--is-different-from ownership-of-the-land;~~

~~(b)--the-taxpayer-makes-a-written-request;-or~~

~~(c)--the-land-is-outside-an-incorporated-city--or--town.~~

~~(Subsection--(6)(d)-terminates-January-1,-1994--sec.-19,-Ch. 783,-L.-1991.)~~"

NEW SECTION. **SECTION 3.** PHASEIN OF THE TAXABLE VALUE OF AGRICULTURAL LAND. THE INCREASE OR DECREASE IN TAXABLE VALUE OF AGRICULTURAL LAND RESULTING FROM THE CHANGE IN THE METHOD OF DETERMINING PRODUCTIVE CAPACITY VALUE UNDER 15-7-201 MUST BE PHASED IN BEGINNING JANUARY 1, 1994, AS FOLLOWS:

(1) FOR THE YEAR BEGINNING JANUARY 1, 1994, AND ENDING DECEMBER 31, 1994, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 25% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(2) FOR THE YEAR BEGINNING JANUARY 1, 1995, AND ENDING DECEMBER 31, 1995, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 50% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE

VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(3) FOR THE YEAR BEGINNING JANUARY 1, 1996, AND ENDING DECEMBER 31, 1996, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY MUST INCREASE OR DECREASE FROM THE DECEMBER 31, 1993, VALUE BY 75% OF THE DIFFERENCE BETWEEN THE PRODUCT OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND FOR 1994 DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE AND THE TAXABLE VALUE OF AGRICULTURAL LAND AS OF DECEMBER 31, 1993.

(4) BEGINNING JANUARY 1, 1997, THE TAXABLE VALUE OF AGRICULTURAL LAND IN EACH LAND USE AND PRODUCTION CATEGORY IS EQUAL TO 100% OF THE PRODUCTIVE CAPACITY VALUE OF AGRICULTURAL LAND DETERMINED UNDER 15-7-201 TIMES THE CLASS THREE TAX RATE.

NEW SECTION. **SECTION 4.** ADVISORY COMMITTEE -- REVIEW OF WATER COSTS AND CROP SHARE ARRANGEMENTS. (1) THE GOVERNOR SHALL APPOINT AN ADVISORY COMMITTEE TO REVIEW WATER COSTS, CROP SHARE ARRANGEMENTS, AND OTHER ISSUES INVOLVING THE ASSESSMENT AND VALUATION OF AGRICULTURAL LAND. THE MEMBERSHIP OF THE COMMITTEE MUST INCLUDE:

(A) ONE MEMBER REPRESENTING URBAN INTERESTS;

(B) TWO MEMBERS REPRESENTING WATER USERS, ONE OF WHOM MUST BE AN INDIVIDUAL WATER USER AND ONE OF WHOM MUST BE A REPRESENTATIVE OF AN ORGANIZED IRRIGATION DISTRICT;

(C) ONE MEMBER REPRESENTING GRAZING INTERESTS;

(D) ONE MEMBER REPRESENTING NONIRRIGATED CROPLAND INTERESTS;

(E) ONE MEMBER REPRESENTING MULTIPLE-USE FARMERS AND RANCHERS;

(F) ONE MEMBER REPRESENTING FINANCIAL INSTITUTIONS;

(G) TWO MEMBERS OF THE LEGISLATURE, NOT OF THE SAME POLITICAL PARTY, ONE OF WHOM MUST BE A MEMBER OF THE SENATE AND ONE OF WHOM MUST BE A MEMBER OF THE HOUSE OF REPRESENTATIVES; AND

(H) ONE MEMBER REPRESENTING LOCAL GOVERNMENT.

(2) THE COMMITTEE SHALL REVIEW WATER COSTS AND CROP SHARE ARRANGEMENTS ASSOCIATED WITH IRRIGATED LANDS AND RECOMMEND TO THE DEPARTMENT OF REVENUE BY JULY 1, 1994, HOW WATER COSTS AND CROP SHARE ARRANGEMENTS SHOULD BE CONSIDERED FOR THE VALUATION OF IRRIGATED LAND. THE COMMITTEE MAY RECOMMEND THE ADJUSTMENT IN THE VALUATION OF OTHER AGRICULTURAL LAND CLASSES IN ORDER TO PREVENT A REDUCTION IN THE LEVEL OF STATEWIDE TAXABLE VALUATION OF AGRICULTURAL LAND.

SECTION 5. SECTION 7-13-2527, MCA, IS AMENDED TO READ:

"7-13-2527. **List of property owners.** (1) A copy of the order creating the district ~~shall~~ must be delivered to the county assessor of each county within the district.

(2) The assessor shall, on or before August 1 of ~~any given~~ each year, prepare and certify a list of all persons

owning class four ~~or class eleven~~ property within ~~such~~ the district and deliver a copy of ~~such~~ the list to the board of trustees of ~~said~~ the district."

SECTION 6. SECTION 15-6-134, MCA, IS AMENDED TO READ:

"15-6-134. Class four property -- description -- taxable percentage. (1) Class four property includes:

(a) all land except that specifically included in another class;

(b) all improvements, including trailers or mobile homes used as a residence, except those specifically included in another class;

(c) the first $80,000 or less of the market value of any improvement on real property, including trailers or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income or loss and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $10,000 for a single person or $12,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii);

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist

of at least 9 holes and not less than 3,000 lineal yards~~.~~; and

(e) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202(2), including 1 acre of real property beneath the agricultural improvements. The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) Except as provided in 15-24-1402 or 15-24-1501, property described in subsections (1)(a), and (1)(b), and (1)(e) is taxed at 3.86% of its market value.

(b) (i) Property described in subsection (1)(c) is taxed at 3.86% of its market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$ 0 - $ 1,000	$ 0 - $ 1,200	0%
1,001 - 2,000	1,201 - 2,400	10%
2,001 - 3,000	2,401 - 3,600	20%
3,001 - 4,000	3,601 - 4,800	30%
4,001 - 5,000	4,801 - 6,000	40%
5,001 - 6,000	6,001 - 7,200	50%
6,001 - 7,000	7,201 - 8,400	60%

7,001 - 8,000	8,401 - 9,600	70%
8,001 - 9,000	9,601 - 10,800	80%
9,001 - 10,000	10,801 - 12,000	90%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1986; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable percentage rate established in subsection (2)(a).

(3) After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate for class four property until a revaluation has been made as provided in 15-7-111.

(4) Within the meaning of comparable property as

defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property, and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

SECTION 7. SECTION 15-10-402, MCA, IS AMENDED TO READ:

"**15-10-402. Property tax limited to 1986 levels.** (1) Except as provided in subsections (2) and (3), the amount of taxes levied on property described in 15-6-133, 15-6-134, and 15-6-136~~,--and--15-6-144~~ may not, for any taxing jurisdiction, exceed the amount levied for taxable year 1986.

(2) The limitation contained in subsection (1) does not apply to levies for rural improvement districts, Title 7, chapter 12, part 21; special improvement districts, Title 7, chapter 12, part 41; elementary and high school districts, Title 20; juvenile detention programs authorized under 7-6-502; or bonded indebtedness.

(3) New construction or improvements to or deletions from property described in subsection (1) are subject to taxation at 1986 levels.

(4) As used in this section, the "amount of taxes levied" and the "amount levied" mean the actual dollar amount of taxes imposed on an individual piece of property, notwithstanding an increase or decrease in value due to

inflation, reappraisal, adjustments in the percentage multiplier used to convert appraised value to taxable value, changes in the number of mills levied, or increase or decrease in the value of a mill."

SECTION 8. SECTION 15-10-412, MCA, IS AMENDED TO READ:

"15-10-412. Property tax limited to 1986 levels -- clarification -- extension to all property classes. Section 15-10-402 is interpreted and clarified as follows:

(1) The limitation to 1986 levels is extended to apply to all classes of property described in Title 15, chapter 6, part 1.

(2) The limitation on the amount of taxes levied is interpreted to mean that, except as otherwise provided in this section, the actual tax liability for an individual property is capped at the dollar amount due in each taxing unit for the 1986 tax year. In tax years thereafter, the property must be taxed in each taxing unit at the 1986 cap or the product of the taxable value and mills levied, whichever is less for each taxing unit, except in a taxing unit that levied a tax in tax years 1983 through 1985 but did not levy a tax in 1986, in which case the actual tax liability for an individual property is capped at the dollar amount due in that taxing unit for the 1985 tax year.

(3) The limitation on the amount of taxes levied does not mean-that-no prohibit a further increase may-be-made in

the total taxable valuation of a taxing unit as a result of:

(a) annexation of real property and improvements into a taxing unit;

(b) construction, expansion, or remodeling of improvements;

(c) transfer of property into a taxing unit;

(d) subdivision of real property;

(e) reclassification of property;

(f) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(g) transfer of property from tax-exempt to taxable status; or

(h) revaluations caused by:

(i) cyclical reappraisal; or

(ii) expansion, addition, replacement, or remodeling of improvements.

(4) The limitation on the amount of taxes levied does not mean-that-no prohibit a further increase may-be-made in the taxable valuation or in the actual tax liability on individual property in each class as a result of:

(a) a revaluation caused by:

(i) construction, expansion, replacement, or remodeling of improvements that adds value to the property; or

(ii) cyclical reappraisal;

(b) transfer of property into a taxing unit;

(c) reclassification of property;

(d) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(e) annexation of the individual property into a new taxing unit; or

(f) conversion of the individual property from tax-exempt to taxable status.

(5) Property in ~~classes~~ class four ~~and-eleven~~ is valued according to the procedures used in 1986, including the designation of 1982 as the base year, until the reappraisal cycle beginning January 1, 1986, is completed and new valuations are placed on the tax rolls and a new base year designated, if the property is:

(a) new construction;

(b) expanded, deleted, replaced, or remodeled improvements;

(c) annexed property; or

(d) property converted from tax-exempt to taxable status.

(6) Property described in subsections (5)(a) through (5)(d) that is not class four ~~or-class--eleven~~ property is valued according to the procedures used in 1986 but is also subject to the dollar cap in each taxing unit based on 1986

mills levied.

(7) The limitation on the amount of taxes, as clarified in this section, is intended to leave the property appraisal and valuation methodology of the department of revenue intact. Determinations of county classifications, salaries of local government officers, and all other matters in which total taxable valuation is an integral component are not affected by 15-10-401 and 15-10-402 except for the use of taxable valuation in fixing tax levies. In fixing tax levies, the taxing units of local government may anticipate the deficiency in revenues resulting from the tax limitations in 15-10-401 and 15-10-402, while understanding that regardless of the amount of mills levied, a taxpayer's liability may not exceed the dollar amount due in each taxing unit for the 1986 tax year unless:

(a) the taxing unit's taxable valuation decreases by 5% or more from the 1986 tax year. If a taxing unit's taxable valuation decreases by 5% or more from the 1986 tax year, it may levy additional mills to compensate for the decreased taxable valuation, but ~~in-no-case-may~~ the mills levied may not exceed a number calculated to equal the revenue from property taxes for the 1986 tax year in that taxing unit.

(b) a levy authorized under Title 20 raised less revenue in 1986 than was raised in either 1984 or 1985, in which case the taxing unit may, after approval by the voters in the taxing unit, raise each year thereafter an additional number of mills but may not levy more revenue than the 3-year average of revenue raised for that purpose during 1984, 1985, and 1986;

(c) a levy authorized in 50-2-111 that was made in 1986 was for less than the number of mills levied in either 1984 or 1985, in which case the taxing unit may, after approval by the voters in the taxing unit, levy each year thereafter an additional number of mills but may not levy more than the 3-year average number of mills levied for that purpose during 1984, 1985, and 1986.

(8) The limitation on the amount of taxes levied does not apply to the following levy or special assessment categories, whether or not they are based on commitments made before or after approval of 15-10-401 and 15-10-402:

(a) rural improvement districts;

(b) special improvement districts;

(c) levies pledged for the repayment of bonded indebtedness, including tax increment bonds;

(d) city street maintenance districts;

(e) tax increment financing districts;

(f) satisfaction of judgments against a taxing unit;

(g) street lighting assessments;

(h) revolving funds to support any categories specified in this subsection (8);

(i) levies for economic development authorized pursuant to 90-5-112(4);

(j) levies authorized under 7-6-502 for juvenile detention programs; and

(k) elementary and high school districts.

(9) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability following a resolution of the governing body of the taxing unit containing:

(a) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;

(b) an explanation of the nature of the financial emergency;

(c) an estimate of the amount of funding shortfall expected by the taxing unit;

(d) a statement that applicable fund balances are or by the end of the fiscal year will be depleted;

(e) a finding that there are no alternative sources of revenue;

(f) a summary of the alternatives that the governing body of the taxing unit has considered; and

(g) a statement of the need for the increased revenue and how it will be used.

(10) (a) The limitation on the amount of taxes levied

does not apply to levies required to address the funding of relief of suffering of inhabitants caused by famine, conflagration, or other public calamity.

(b) The limitation set forth in this chapter on the amount of taxes levied does not apply to levies to support:

(i) a city-county board of health as provided in Title 50, chapter 2, if the governing bodies of the taxing units served by the board of health determine, after a public hearing, that public health programs require funds to ensure the public health. A levy for the support of a local board of health may not exceed the 5-mill limit established in 50-2-111.

(ii) county, city, or town ambulance services authorized by a vote of the electorate under 7-34-102(2).

(11) The limitation on the amount of taxes levied by a taxing jurisdiction subject to a statutory maximum mill levy does not prevent a taxing jurisdiction from increasing its number of mills beyond the statutory maximum mill levy to produce revenue equal to its 1986 revenue.

(12) The limitation on the amount of taxes levied does not apply to a levy increase to repay taxes paid under protest in accordance with 15-1-402."

NEW SECTION. **SECTION 9.** REPEALER. SECTION 15-6-144, MCA, IS REPEALED.

NEW SECTION. **Section 10.** Codification instruction.

[Sections 3 and 4] are intended to be codified as an integral part of Title 15, chapter 7, part 2, and the provisions of Title 15, chapter 7, part 2, apply to [sections 3 and 4].

NEW SECTION. **Section 11.** Severability. If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 12.** Termination. [Section 4] terminates January 1, ~~1997~~ 1995.

NEW SECTION. **Section 13.** Effective date -- applicability. [This act] is effective on passage and approval and applies to tax years beginning on or after January 1, 1994.

-End-