SENATE BILL 170

Introduced by Jergeson, et al.

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Senate BILL NO. 170

INTRODUCED BY Jergeson Beck Bardanouve Ream Wheeling Foster Hockett [illegible] [illegible] [illegible] Benedict

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE METHOD OF VALUING AGRICULTURAL LANDS IN CLASS THREE PROPERTY FOR PROPERTY TAX PURPOSES; REVISING THE TAX RATE ON CLASS THREE PROPERTY TO 4.03 PERCENT TO MAINTAIN STATEWIDE TOTAL TAXABLE VALUE OF CLASS THREE PROPERTY; AMENDING SECTIONS 15-6-133 AND 15-7-201, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY 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"~~ 4.03% of its productive capacity.

~~(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".~~

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~~(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 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 be used until new agricultural land valuation schedules are determined 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 for each land use and production category.

(b) Except as provided in subsection (5)(c), net income must be based on commodity price data or 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) In determining net income for irrigated land, the department shall, after taking into account crop share arrangements, allow an additional deduction, equal to 13.5% of the gross crop value, for water costs. The deduction for water costs is in lieu of actual energy and labor costs required to irrigate land.

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

(e) 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 base 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 determine agricultural

land valuation schedules as provided in 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. 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 SB0170 , as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:
An act revising the method of valuing agricultural lands in class three property for property tax purposes; revising the tax rate on class three property to 4.03 percent to maintain statewide total taxable value of class three property; and providing an immediate effective date and an applicability 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. The bill proposes using the 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) excluding the recommended water values for irrigated land. Instead, the bill proposes a water cost deduction equal to 13.5% of gross crop value. This water cost deduction is in lieu of actual energy and labor costs required to irrigate land. The bill proposes a taxable rate of 4.03%. 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 (equal to 13.5% of gross crop value) are deducted from the rental value prior to determining assessed value on irrigated land.
   e) The capitalization rate is 6.4 %.
   f) The taxable rate is reduced from 30% to 4.03%.
3. Based on assumption 2 and current statewide ag land distribution, the total assessed value under the proposal for Jan. 1, 1994 is estimated to be $3,533,941,664. The total taxable value under the proposal for Jan. 1, 1994 is estimated to be $142,417,849.
4. 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.

(Continued)

Dave Lewis 1-23-93
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Greg Jergeson 1/25/93
GREG JERGESON, PRIMARY SPONSOR DATE

Fiscal Note Request, SB0170, as introduced
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(continued)

FISCAL IMPACT:
This proposal differs only slightly from the recommendations of the agricultural land advisory committee (SB 168). It is expected that the impacts of this proposal will be similar. Statewide taxable valuation of class three property and taxes paid by all class three property is expected to change only slightly. Likewise, there will be shifting of taxable valuations between counties and between agricultural land types.

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