SENATE BILL NO. 198

INTRODUCED BY Jergeson, Story, Hibbard, Towe, Matt McCann

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

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

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

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

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

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

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

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

category;

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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 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 in the period.

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

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

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

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

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

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

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

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

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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~~ the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1~~, 1993,~~ of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in ~~1992~~ that energy cost base year. In the event that no energy costs were incurred in ~~1992~~ the energy cost base year, 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~~ the energy cost base year.

(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 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 in the period.

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

(7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data required by subsections (4) and (5). The advisory committee shall include one member of the Montana state university, college of agriculture, staff. The advisory committee shall recommend agricultural land valuation schedules to the department. With respect

to irrigated land, the value of irrigated land may not be below the value that the land would have if it were not irrigated."

Section 3. Section 15-7-221, MCA, is amended to read:

"**15-7-221. 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~~ 1995, as follows:

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

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

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

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

(a) principles and practices of property taxation;

(b) irrigated agricultural practices and production;

(c) nonirrigated agricultural practices and production;

(d) livestock grazing practices and production;

(e) agricultural management practices; and

(f) financial management.

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

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

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

NEW SECTION. **Section 6. Effective dates.** (1) [Sections 1, 3, 4 and this section] are effective on passage and approval.

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

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

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

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

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

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB 198, as Introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act generally revising the method of valuing irrigated agricultural land; establishing a base water cost for computing net income from irrigated land; establishing an energy cost base year for irrigated land; limiting allowable water costs to a maximum of $35 per acre of irrigated land; revising the phasein of the taxable value of agricultural land; establishing an advisory committee to study methods for using soil capability for the valuation of agricultural land; and providing effective dates, applicability dates, and a termination date.

ASSUMPTIONS:

1. The result of the proposal is to reduce the valuation of irrigated land. For FY96, the proposal would decrease the total assessed valuation of irrigated land by $27,150,000. For FY97, the proposal would decrease the total assessed valuation of irrigated land by $54,300,000.
2. The taxable rate for irrigated ag land (class three property) is 3.86%.
3. Average mill levies applied to class three property are 6 mills for the university system, 95 for state equalization, and 211.82 mills for local governments.
4. It is estimated that the advisory committee to study soil capability for valuation of agricultural land (section 4 of the proposal) would require the following; assistance of University Faculty ($22,500); assistance from expert consultants ($10,000); committee members expenses ($15,000); and miscellaneous expenses ($2,500). The advisory committee would meet and complete it's work in FY96.

FISCAL IMPACT:

	FY96 Difference	FY97 Difference
Expenditures:		
Operating Expenses (01)	$ 50,000	0
Revenues:		
University System	$ (6,300)	$ (12,600)
State Equalization	(99,600)	(199,200)
Total State	$ (105,900)	$ (211,800)
General Fund Net Impact: (Revenue-Expenditures)		
Total	$ (155,900)	$ (211,800)

Dave Lewis 1-26-95

DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

GREG JERGESON, PRIMARY SPONSOR DATE
Fiscal Note for SB 198, as Introduced

SB 198

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The proposal would reduce local government revenues by $222,000 in FY96 and $444,000 in FY97.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

After 100% phasein (FY97), the proposal results in a revenue reductions of $18,900 for the university system, $298,800 for the state equalization program, and $666,000 for local governments. If the appraisal methods for agricultural land remain relatively unchanged over the coming reappraisal cycles then this revenue reduction can be expected for subsequent fiscal years.

TECHNICAL NOTES:

1) The title to section 1 of the proposal should be changed to refer the section applying to 1995 and 1996, not 1994 as is stated.

APPROVED BY COM ON TAXATION

SENATE BILL NO. 198

INTRODUCED BY JERGESON, STORY, HIBBARD, TOEWS, MCCANN

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

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Section 3. Section 15-7-221, MCA, is amended to read:

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

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

(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 — study of soil capability for valuation of agricultural land.**~~ ~~(1) The governor shall appoint an advisory committee to study methods for determining the productive capability of soils and methods for using the productive capability of soils for the valuation of agricultural lands for property tax purposes. The advisory committee shall also consider the extent to~~

~~which economic factors, such as land use and management practices, influence the valuation of agricultural land for property tax purposes.~~

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

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

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

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

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

NEW SECTION. **Section 4. Repealer.** Section 15-7-221, MCA, is repealed.

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

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

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

NEW SECTION. **Section 6. ~~Retroactive applicability~~ APPLICABILITY.** (1) [Sections 1 and 3] apply retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1994.

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

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

-END-

SENATE BILL NO. 198

INTRODUCED BY JERGESON, STORY, HIBBARD, TOEWS, MCCANN

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

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THIRD READING
AS AMENDED

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

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(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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 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 in the period.

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

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

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

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

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

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

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

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

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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~~ the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1~~, 1993,~~ of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in ~~1992~~ that energy cost base year. In the event that no energy costs were incurred in ~~1992~~ the energy cost base year, 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~~ the energy cost base year.

(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 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 in the period.

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

(7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and agricultural economics to compile and review the data required by subsections (4) and (5). The advisory committee shall include one member of the Montana state university, college of agriculture, staff. The advisory committee shall recommend agricultural land valuation schedules to the department. With respect

to irrigated land, the value of irrigated land may not be below the value that the land would have if it were not irrigated."

Section 3. Section 15-7-221, MCA, is amended to read:

"**15-7-221. 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~~ 1995, as follows:

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

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

(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 -- study of soil capability for valuation of agricultural land.**~~ ~~(1) The governor shall appoint an advisory committee to study methods for determining the productive capability of soils and methods for using the productive capability of soils for the valuation of agricultural lands for property tax purposes. The advisory committee shall also consider the extent to~~

~~which economic factors, such as land use and management practices, influence the valuation of agricultural land for property tax purposes.~~

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

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

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

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

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

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

~~(f) financial management.~~

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

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

NEW SECTION. **Section 4. Repealer.** Section 15-7-221, MCA, is repealed.

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

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

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

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

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

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

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

-END-

HOUSE STANDING COMMITTEE REPORT

March 20, 1995

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

Signed: Chase Hibbard

Chase Hibbard, Chair

Carried by: Rep. Hibbard

And, that such amendments read:

1. Title, line 10.
Following: "~~LAND,~~"
Insert: "ESTABLISHING AN ADVISORY COMMITTEE TO STUDY METHODS FOR USING SOIL CAPABILITY FOR THE VALUATION OF AGRICULTURAL LAND;"

2. Title, line 11.
Strike: "AND"
Insert: ","

3. Title, line 12.
Strike: "AND A CONTINGENT VOIDNESS PROVISION"
Insert: ", AND A TERMINATION DATE"

4. Page 6, line 16.
Insert: "NEW SECTION. **Section 4. Advisory committee -- study of soil capability for valuation of agricultural land.** (1) The governor shall appoint an advisory committee to study methods for determining the productive capability of soils and methods for using the productive capability of soils for the valuation of agricultural lands for property tax purposes. The advisory committee shall also consider the extent to which economic factors, such as land use and management practices, influence the valuation of

DS.

Committee Vote:
Yes 16, No 3.

SB 198

HOUSE

agricultural land for property tax purposes.

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

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

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

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

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

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

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

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

-END-

SENATE BILL NO. 198

INTRODUCED BY JERGESON, STORY, HIBBARD, TOEWS, MCCANN

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

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

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

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

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

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

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

formula V = I/R where:

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

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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 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 in the period.

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

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

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

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

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

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

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

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

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

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

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

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(B) Energy costs must be based on per-acre energy costs incurred in ~~1992~~ the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1~~, 1993,~~ of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in ~~1992~~ that energy cost base year. In the event that no energy costs were incurred in ~~1992~~ the energy cost base year, 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~~ the energy cost base year.

(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 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 in the period.

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

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

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

Section 3. Section 15-7-221, MCA, is amended to read:

"**15-7-221. 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~~ 1995, as follows:

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

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

(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 -- study of soil capability for valuation of agricultural land.** (1) The governor shall appoint an advisory committee to study methods for determining~~

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

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

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

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

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

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

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

~~(f) financial management.~~

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

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

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

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

(A) PRINCIPLES AND PRACTICES OF PROPERTY TAXATION;

(B) IRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;

(C) NONIRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;

(D) LIVESTOCK GRAZING PRACTICES AND PRODUCTION;

(E) AGRICULTURAL MANAGEMENT PRACTICES; AND

(F) FINANCIAL MANAGEMENT.

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

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

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

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

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

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

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

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

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

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

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

-END-

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

Mr. President and Mr. Speaker:

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

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

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

1. Title, lines 10 and 11.
Strike: "ESTABLISHING" on line 10 through "LAND;" on line 11

2. Title, line 12.
Strike: ","
Insert: "AND"

3. Title, lines 13 and 14.
Strike: ", AND" on line 13 through "DATE" on line 14

4. Page 6, line 19 through page 7, line 9.
Strike: section 4 in its entirety
Renumber: subsequent sections

5. Page 7, line 19.
Strike: "4,"
Strike: "7, 8"
Insert: "6"

6. Page 7, line 22.
Strike: "5"
Insert: "4"

7. Page 7, line 30.
Strike: section 8 in its entirety

And that this Conference Committee report be adopted.

For the Senate:

Devlin
Gerry Devlin
Chair

Beck
Tom Beck

Jergenson
Greg Jergeson

For the House:

Hibbard
Chase Hibbard
Chair

Rose
John M. Rose

Wennemar

ADOPT

REJECT

SB 198
CCR#1

821302CC.SRF

Amd. Coord.

Sec. of Senate

SENATE BILL NO. 198

INTRODUCED BY JERGESON, STORY, HIBBARD, TOEWS, MCCANN

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

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

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

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

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

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

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

formula V = I/R where:

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

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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 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 in the period.

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

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

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

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

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

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

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

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

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

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

(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 water cost data for the base period~~.~~, as follows:

(i) Commodity price data and grazing fees 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, and a base water cost of $5.50 for each acre of irrigated land. Total allowable water costs may not exceed $35 for each acre of irrigated land. Labor and energy costs must be determined as follows:

(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~~ the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1~~, 1993,~~ of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in ~~1992~~ that energy cost base year. In the event that no energy costs were incurred in ~~1992~~ the energy cost base year, 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~~ the energy cost base year.

(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 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 in the period.

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

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

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

Section 3. Section 15-7-221, MCA, is amended to read:

"**15-7-221. 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~~ 1995, as follows:

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

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

(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 — study of soil capability for valuation of agricultural land.** (1) The governor shall appoint an advisory committee to study methods for determining~~

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

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

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

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

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

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

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

~~(f) financial management.~~

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

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

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

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

~~(A) PRINCIPLES AND PRACTICES OF PROPERTY TAXATION;~~

~~(B) IRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;~~

~~(C) NONIRRIGATED AGRICULTURAL PRACTICES AND PRODUCTION;~~

~~(D) LIVESTOCK GRAZING PRACTICES AND PRODUCTION;~~

~~(E) AGRICULTURAL MANAGEMENT PRACTICES; AND~~

~~(F) FINANCIAL MANAGEMENT.~~

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

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

NEW SECTION. **Section 4. Repealer.** Section 15-7-221, MCA, is repealed.

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

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

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

(3) [Section ~~6~~ ~~4~~ ~~5~~ 4] is effective January 1, 1998.

NEW SECTION. **Section 6.** ~~Retroactive applicability~~ APPLICABILITY. (1) [Sections 1 and 3] apply retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1994.

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

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

~~NEW SECTION. **SECTION 8. TERMINATION.** [SECTION 4] TERMINATES JULY 1, 1997.~~

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