

Committee Members Present:

Mike Jopek, Chairman
Dennis McDonald
Gerald (Jerry) Nielson
Richard (Buck) O'Brien
William (Butch) Krutzfeldt
James O'Hara
James Johnson
Helena (Jo) shipman

Committee Members Absent:

John Schutter

Department of Revenue Representatives:

Cynthia Monteau Moore, Administrator, DOR, PAD
Dan Bucks, Director, DOR

Chairman Mike Jopek called the meeting to order at 8:31 am

Greetings, Dan Bucks, Director

Director Bucks thanked the members for their attendance and welcomed James O'Hara and James Johnson who were unable to attend the last meeting. He stated that the department believes in the continual improvement of the agricultural land valuation system and values the advisory committee's input. In the 2009 reappraisal, we took a system that hadn't been updated since 1963 and revised it. Director Bucks said that we now have an objective, scientific based system. This was an historic achievement and the department could not have accomplished it without the committee's help and input from citizens of the farm and ranch community.

Helen Jo Shipman joined the meeting via teleconference.

I. Opening Comments & General Housekeeping , *Cynthia Monteau Moore , Administrator, DOR*

Cynthia discussed a framework of the committee's responsibilities as outlined in statute and provided draft agendas for upcoming meetings.

II. Approval of Minutes, *Mike Jopek, Chairman*

The committee approved the August 29, 2012 minutes.

III. Discussion of Capitalization Rate

James Johnson reviewed how the current cap rate was developed. He stated that the current rate of 6.4% was set by the 1990-1992 ag advisory committee. The cap rate is developed by determining the ratio of the value of land and the annual rent per acre; or rent to value ratio. This information is published by the NASS (Montana Ag Statistics). However, there was concern among committee members that the land sales used to determine the value of land could be influenced by speculation on the market. This may result in an inaccurate cap rate, since Montana Code stipulates that the value of agricultural land is not to consider speculative purposes. The previous committee looked at what the developed cap rate would do to land values, and determined that it would nearly double the value for most agricultural land. Thus, they decided to keep the 6.4% rate. Chairman Jopek reminded the committee that whatever decision is made regarding the cap rate, it must be defensible and rationally developed.

IV. Assessment Notices

Committee members suggested that the assessment notice should clearly indicate that agricultural land is valued based on its productivity as opposed to its market value. The assessment notice says market/productivity value, but that can be confusing for some taxpayers. It was proposed that the department should consider changing the assessment notice by including a column for productivity value, or by adding a footnote to the bottom of the document. It was agreed that changing the form would be costly and difficult. Inserting a footnote at the bottom of the assessment notice seems to be the best choice at this time. Chairman Jopek closed by saying he appreciated the good discussion on this matter.

V. Agricultural Statistics, *Eric Sommer, Deputy Director*

Eric Sommer introduced himself and explained his role as a statistician with NASS (National Agricultural Statistics Service).

Eric explained that the NASS conducts hundreds of surveys every year and prepares reports covering virtually every aspect of U.S. agriculture. They cover production and supplies of food and fiber, prices paid and received by farmers, farm labor and wages and much more. NASS is committed to providing timely, accurate, and useful statistics from start to finish. NASS tracks and compiles objective, unbiased information from the data they receive.

Eric stressed the fact that NASS deals with confidential data and that individual data does not leave NASS. He said that there are a limited number of people that actually work with the documents containing confidential data. In addition, Congress has passed a law that no one can get confidential data from the NASS.

Several questions were asked of Eric about how NASS goes about collecting its data, including whether their rental data includes crop share arrangements. Eric responded that the rent data reflects a cash only basis. NASS does not collect share crop data because of the difficulty of quantifying what a share would be worth.

Eric went on to say that NASS receives their funding through the farm bill and that limits what they can do. He added that NASS classifies any property as a farm that earns or has the potential to earn, over \$1000 a year. The committee asked what other types of surveys NASS is in charge of conducting. Eric said they conduct the small grain acreage survey in late September thru early October and that these surveys are done by interviews. They also do row crop surveys in late November thru mid-December. The Census of Agriculture is another survey that is conducted every 5 years. This survey is going on right now and will be delivered the middle of December or the middle of January. It is a separate function from their regular data collection and is required by law similar to the population census. Just like the population census you can be prosecuted for failing to respond or for being dishonest.

Finally the committee asked about how alfalfa hay sales are compiled and if there is any consideration given for dairy quality hay. Eric said NASS does not adjust hay values for dairy quality hay and is not aware that they ever did. Eric also said that the alfalfa hay that is reported is not necessarily 100% alfalfa and may include other hay, such as grass.

In conclusion Eric stated that NASS sends out about 7,000 applications and gets about a 60 percent response back. In addition, in order to ensure accurate and reliable data. NASS conducts quality control and intensive training of personnel.

VI. Management Analyst Presentation: Base Periods, Averaging Methods, Base Crops and Landowners Shares, *Bonnie Hamilton & Frank McCall, PAD*

Frank began his presentation by showing several pie charts that compared what share each of the different classes of properties comprises overall. He examined the acreage, appraised value, taxable value and taxes. For example, although agricultural land makes up almost 75% of the total acreage, its taxable value comprises about 6% of the statewide total.

Frank discussed base periods and averaging methods used in valuation. Montana code requires the department to use an Olympic average of the most recent seven years for which there is data available. The Olympic average removes the high and low year and averages the remaining 5 years. This seven year Olympic average is used to smooth out price volatility.

The three base crops that are used for determining price and productivity were discussed. They are spring wheat, alfalfa hay, and animal unit months (AUM). Frank stressed that Montana Statute requires that the data we use for these crops must be obtained from Montana Agricultural Statistics. Prior committees recommended using Ag Statistics because they provide the most consistent and reliable data.

Frank responded to a variety of questions in addition to addressing the use of landowner's crop shares for determining the net income on farm land.

VII. Roundtable Discussion

The committee discussed payments in lieu of taxes (PILT). These are payments to counties for state trust lands that are exempt from taxation. The committee requested that the department research this topic and report on it at the next meeting. Finally, the committee agreed that their main concern is to assure accurate values, and not focus on the tax implication.

The ideas/issues that need to be addressed in the next meeting are as follows:

1. PILT Payments-Research and prepare a report
2. A comparison using more than 7 years of data. i.e. 10 year, 20 year averages
3. One acre homesite analysis
4. Spring wheat subsidy payment calculation for previous cycle
5. Using FSA data to determine spring wheat prices at county level
6. Correctly characterizing that agricultural/forest land is valued based on its productive capacity on assessment notices

VIII. Public Comment

There was no public comment.

IX. Committee Schedule

The committee schedule was reviewed and no changes were made.

X. Adjourn

Adjourned at 11:30 AM