

MINUTES

Agricultural Advisory Committee Meeting
May 23, 2018

PRESENT:

Committee Members:

Mike Jopek – Chairman
Anton Beckerman
Gerald Nielson
James Johnson
Keith Kelly
John Schutter

Mike Murphy (Montana Water Resources Association)
Representative Becky Beard
Jay Bodnar (Montana Stockgrowers)
John Youngberg (Montana Farm Bureau Association)

Department of Revenue Staff:

Gene Walborn – Director
Gordy Conn – Deputy Administrator, PAD
Bonnie Hamilton – Management Analyst, PAD
Tiffany Pouliot – Management Analyst, PAD

Others:

Chris Christiaens (Montana Farmer's Union)
Lola Raska (Montana Grain Growers)
Mitch Konen (Montana Grain Growers)

- I. **CALLED TO ORDER:** Chairman Jopek called the meeting to order at 9:10 a.m.
- II. **Review of Committee Responsibilities (Gordy Conn):**
 - o Gordy Conn discussed the objective and the responsibilities of the committee per statute 15-7-201, MCA.

DISCUSSION:

- III. **Review of Agricultural Land Valuation Methods (Bonnie Hamilton):** Bonnie presented an overview of agricultural lands, including:
 - o Agricultural eligibility
 - o Agricultural valuation methods
 - o Productivity statistics
 - o Statewide commodity price history and estimated price adjustments for the 2017-2018 cycle. Adjustments expected are as follows:
 - Spring wheat- 5% increase to \$6.67
 - Alfalfa hay- 13% increase to \$86.20
 - Private grazing fee-8% increase to \$19.53
 - Minimum value of irrigated land-5% increase to \$599.26

- Nonqualified agricultural land and nonproductive patented mining claims-8% increase to \$48.13
- Specialty Crops-14% increase in the value of 1 acre to \$1,563 at 60 bushels/acre
- Value of 1 acre farmsite-15% increase to \$2,302
- Specialty Crops valuation
- Water costs classes and deductions- labor costs have not been updated since 2006. This would require a statutory change.
- Informal Reviews and appeals statistics are decreasing
- Capitalization Rate history and formula
- 2016 Committee Recommendations included:
 - A study of the Olympic average vs. a weighted average
 - Review of Irrigated land valuation, including water costs and minimum value basis
- Public Comment:
 - Chris Christiaens with the Montana Farmers Union asked about pulse crop averages and if the department intended on looking at the valuation of pulse crops. Bonnie Hamilton explained that for mass appraisal purposes, the department values land producing pulse crops are based on spring wheat commodity prices.
 - John Youngberg with the Montana Farm Bureau asked where we get productivity values for honey, sod and other ag crops. Bonnie Hamilton explained the value for eligibility is based on the receipts the taxpayers provide while the land valuation is based on the spring wheat price data from the National Agricultural Statistics Service (NASS).

IV. Review of Weighted Average (Anton Bekkerman, Montana State University):

- Anton explained that 2 years ago, the committee proposed looking at how we arrive at commodity prices. Anton reviewed 5 different methods to predict prices. They are as follows:
 - Regression-determined weights
 - 5-year average
 - 10-year average
 - 5-year Olympic average
 - 10-year Olympic average
- The committee discussed that a smaller time frame, leads to less potential errors, the 10-year Olympic average is a preference of farmers.
- Public Comment:

- John Youngberg commented the weighted regression is less error but it's far too complicated to explain.

V. Administrative Challenges (Bonnie Hamilton, Dept. of Revenue):

- Bonnie discussed administrative challenges the Department would like to bring to the committee's attention. They are as follows:
 - Published Commodity Prices- Due to the commodity prices being a 10-year Olympic average, the last year of data is not published until September of each year. This creates difficulty for the department to update rules, report to Revenue and Transportation Information Committee, and update manuals.
 - The department is receiving a substantial amount of applications and questions on the eligibility requirements pertaining to specialty crops, such as bees, chickens, orchards, and vineyards.
 - Water Cost Questionnaire- The questionnaire has changed to online reporting this year. On-line reporting is efficient for the department. There have been complaints from some of the public. To date there has been a 6% return.
 - Spring Wheat Price for Specialty Crops- The commodity price for specialty crops is spring wheat. Specialty crops include a variety of commodities, such as chickens, garlic, and cherries. There are limitations on the options to value specialty crops. The discussion questions if there is an alternative method to valuing specialty crops that would be more accurate than using the commodity price of spring wheat. This is mentioned as something for the committee to consider.
- Public Comment and discussion: Lola Raska with Montana Grain Growers Association asked how valuing specialty crops compares to valuing residential properties. Bonnie Hamilton explained the valuation methods of residential land. Chairman Jopek summarized that while specialty crops are growing, they still only encompass a very small percentage of our ag land in Montana. If a change is made this will affect all ag producers, not just the specialty crop farmers. Members of the committee urge to keep things simple. Topics discussed were:
 - A form of compliance such as \$1,500 gross receipts produced, 5 out of 7 years as a qualifying factor.
 - Considering the criteria used by the Department of Agriculture for a licensed producer.
 - Schedule F tax form being utilized as income verification.
 - Simplifying the classification to cropland or non-cropland.
 - Administrative cost to the Department of Revenue for routine compliance.

VI. Questionnaire from MSU (Jim Johnson):

- Jim presented a survey that is being used by other states to collect data on agricultural leases. This survey would be administered by NASS at a cost of approximately \$6,500. Jim would like the Department of Revenue to consider

sharing the administration costs and utilizing that survey to study and analyze the current crop share percentage of 25%. The crop share questions would be added to an existing survey sent out by NASS.

VII. Committee Discussion and Motions:

Discussion: 10-year Olympic average

The committee discussed the 10-year Olympic average commodity prices. The Committee discussed utilizing the first 10 months of the latest year to calculate the average commodity price. They feel this would be a fair estimate to use. If the department sees any issues with this estimate, they will notify the committee.

Motion: Anton Bekkerman motioned to use the first 10 months of each year to calculate the last year in the 10-year average.

Second: Jerry Nielsen

Motion carried unanimously.

Discussion: Weighted Average

The committee discussed there would be less potential for error using a regression method, but would be difficult to explain to farmers. Farmers understand the current 10-year Olympic average process and are comfortable with this. Discussion was that reducing volatility was more important than the accuracy of the current price. Continuing to use the 10-year average, helps neutralizes the volatility.

Motion: John Schutter motioned to continue using the 10-year Olympic average.

Second: Jerry Nielsen

Motion passes with a split vote of 4 to 2. Anton Bekkerman and Jim Johnson voted against the motion.

Discussion: Capitalization Rate Adjustment

The committee discussed if an adjustment is warranted. They do not feel an adjustment is needed.

Motion: John Schutter motioned to maintain the 6.4% cap rate.

Second: Jerry Nielsen

Motion carried unanimously.

Public Comment: No comment

VIII. **Committee Schedule:** No further meetings scheduled.

IX. **Adjourn:** 2:10 P.M.

X. **Committee Members not present:**

- Jane DeBruycker
- Dennis McDonald
- Helen Jo Shipman