

Agricultural Land Advisory Committee Meeting

May 29, 2014

Venue: Wingate Hotel

2700 N. Oakes Street, Helena Montana

Committee Members Present

Chairman Mike Jopek

Rep Mary McNally

Rep Mike Miller

Gerald Nielson

John Schutter

Jane Debruycker

Dennis McDonald

James OHara

Helen Jo Shipman

James Johnson

Sen Bruce Tutvedt

Sen Greg Jergeson

Department of Revenue Staff and Other Guests

Mike Kadas- Director, DOR

Cynthia Monteau Moore – Administrator, PAD

Bonnie Hamilton – Ag/Forest Management Analyst,
PAD

Frank McCall – Ag/Forest Management Analyst, PAD

Michele Crepeau – Attorney, DOR

Katrina Garrod – Executive Assistant, PAD

Bob Story

Chelsey Kramer

John Youngberg

Nick Brown

Megan Moore

Jaret Coles

Mike Murphy

I. Introductions and Opening Comments, Mike Kadas, Director

Chairman Mike Jopek called the meeting to order at 8:40 a.m. and thanked the new members of the committee for participating. Director Mike Kadas, also thanked the committee, and asked the members to please put aside their own self-interests, and use their expertise to help provide the fairest mechanism for valuing agricultural land.

II. Packet Overview and Ag Appraisal Process, Frank McCall, Management Analyst

Frank McCall describes to the committee that the Department of Revenue was created by the Montana Constitution, while giving a general overview and comparison of agricultural land. He spoke about the phase in process and explained that even though we have done it this way for years, it does not mean we necessarily have to continue using the same methodology. Director Kadas explained the cap rate and informed the committee that this is one of the key issues that the committee will be asked to provide a recommendation. Frank reviewed the valuation formula $\text{Value} = \text{Income} / \text{Rate}$ ($V = I / R$) and the

commodity prices for the different types of land uses. He described the basis for agricultural and grazing land eligibility.

III. Overview of Reappraisal Issues, Bonnie Hamilton, Management Analyst

Bonnie briefly reviewed the key issues of the Agricultural Advisory committee:

- a. Wheat Productivity Adjustment- Which type of adjustment process will be put into place at the beginning of July?
- b. Dry Land Hay Productivity Determination- How we calculate the amount of dry hay that the land produces.
- c. Commodity Prices- Three commodity prices as follows: Spring Wheat, Hay, and Private Grazing.
- d. Direct Payments- Do we include these in the spring wheat price?
- e. Irrigated Land Costs- Three costs as follows: Base Cost and Labor Cost (both set in statute), and Energy Cost (requested from the individual producer).
- f. Regional Wheat Prices- Bonnie explained this as something that the department has been researching, with data provided by MSU staff. Regional wheat prices are not to be confused with the regional wheat productivity. Regional wheat prices are an observation of the prices from the different elevators and mills and then consolidated into regions. While other sources for information may be available, Ag Marketing Service (USDA) was the resource predominately used by MSU. The department is currently using a statewide price from Montana Agricultural Statistical Service. Frank stated that there is a difference in prices across the state, but that using a regional wheat price would be difficult from an administrative standpoint. The department will explore this issue in detail at a future meeting.

IV. Approval of Minutes, Chairman Mike Jopek

Chairman Mike Jopek requested the committee entertain a motion to approve the minutes.

Motion: Bruce Tutvedt

The motion is to approve the minutes.

Second: Gerald Nielson

Helen (Jo) Shipman recommended to add the words “per ton” on the first page of the minutes following \$78 in the paragraph with the heading “Commodity Prices Analysis”.

Vote: Yes- 8; No- 0. Motion carries unanimously.

Bob Story recommended that the draft minutes be posted on the State website so that meetings are easier for the public to follow. Director Kadas agreed to post the draft minutes.

V. Wheat Productivity Adjustment, Frank McCall

Mr. McCall described the wheat productivity adjustment. Statute states that we must determine the income that an average farmer or rancher could attain. As a result the previous committee established a 12 year county wide average of spring wheat production from Montana Agricultural Statistics to temper Natural Resource and Conservation Service (NRCS) productivity estimates. He explained the disadvantages to this process:

1. It is difficult to administer and defend due to lack of consistent data from Ag Statistics.
2. Adjusting per county creates productivity differences along county lines that is not acceptable to all taxpayers and was a big reason for many of the agricultural appeals this cycle.
3. Adjusting the productivity on summer fallow every cycle by updating the soil survey and applying a county average is different from the way we update productivity for the other land uses. Other land uses update only the soil survey.

The Department is proposing a regional wheat productivity adjustment. The adjustment would apply to the NRCS productivity on non-irrigated summer fallow farm land and non-irrigated continuously cropped farm land. The regional adjustment factor, is comprised of 2 regions in the state, divided roughly by the continental divide. The counties east of the divide would receive a regional adjustment of .74, and the counties west of the divide would be adjusted by .86. The regional adjustment

is based on a weighted average of adjusted productivity for each region. Mr. McCall said this is the direction the department is leaning and would like to get the committee's input. The department needs to make a decision on this by the first of July in order to complete our valuation of agricultural properties.

The committee discussed the adjustment and why it is needed. It was explained that without this methodology there is another moving variable in the formula for grain producers which other land uses do not have. A regional adjustment would offer producers more predictability. The committee agreed that a regional adjustment makes sense.

The committee discussed the reasoning why an adjustment using Ag Statistics data just by county is not defensible, such as often very little data is available for counties and that no county had a full 12 years of data. In those cases, an adjustment must be based on the average for the growing region that the county is located in, rather than county specific data. Jim Johnson stated that due to the methodology used by Ag Statistics, it is not truly reliable, scientific data.

Senator Tutvedt expressed concern about the increase in productivity in the northeastern corner of the state if this proposed adjustment was adopted. Suggestions from the committee included taking 4 counties (Daniels, Sheridan, Roosevelt, and Richland) and combining them to carve out a third district.. The committee suggested that the department gather additional data to provide a more thorough picture of the productivity in the northeast corner.

It was reiterated that spring wheat is the indicator crop. The department realizes that spring wheat does not necessarily grow well in the winter wheat regions of Montana, namely the Golden Triangle. Senator Jergeson stated that although producers in the Golden Triangle achieve better productivity with winter wheat, winter wheat does not command the higher prices that spring wheat does. Mr. McCall stated that the department previously used "all wheat" data which included spring wheat and winter wheat, as an indicator, but that changed in 2009 to spring wheat only, since spring wheat can be grown in all areas of the state, whereas winter wheat cannot. Any changes of the base commodity are statutory.

Director Kadas made the suggestion that in the next couple weeks, our staff will develop options to show the committee. The committee can make a recommendation based on the additional information, or if needed, could have a conference call or another meeting. The department will provide a comparison and include the predicted changes, if the present methodology of using Ag Statistics to adjust each county is continued.

VI. Dry Land Hay Productivity Determination, Frank McCall

Mr. McCall explained that dry land hay includes native vegetation, domestic grasses, and non-irrigated alfalfa, which is about 2 % of acres statewide. Productivity is currently calculated by looking at the NRCS soil survey and working through a hierarchy to find available data. This method was proposed by the 2006 Ag Committee. The initial productivity determination was based on non-irrigated alfalfa hay. In the event that non-irrigated alfalfa hay production information was not present in the soil survey, non-irrigated grass hay was used. If non-irrigated grass hay information was not available, non-irrigated grass-legume hay was used. If non-irrigated grass-legume production information was not available, air-dry herbage was used. This data was converted to a ton per-acre figure. The Department found that this resulted in productivity values for dry land hay that were not acceptable to producers, resulting in complaints from almost every area in the state. This is an issue we intend to address for next reappraisal.

The department proposes to determine dry land hay productivity by determining the total air-dried herbage that an acre of land would produce. The department will use the midpoint of “below normal” and “normal” year productivity published by the soil survey, similar to how productivity is determined for grazing land. The department will divide that number by 2000 to calculate the tonnage per acre. The advantage is that air dry herbage data is almost always available, whereas alfalfa, grass and legume hay data is not, making this more defensible and consistent. Additionally the productivity is more reflective of the actual production on this land.

The committee discussed the overall impact if this process is adopted for dry land hay. Dry land hay makes up such a small proportion of the overall acres and value of agricultural land that the impact would be minimal for most counties. The general consensus was that the department's proposal is reasonable.

VII. Public Comment

Bob Story commented that because there is unlimited information available for making almost any decision, in order to make progress, this committee has to limit the amount of information they gather before making a decision.

VIII. Summary

The Department of Revenue will send the committee information on realigning the summer fallow regions. The committee will then decide if a conference call or another meeting is necessary.

If there will not be a meeting in June, the committee is looking at August for the next meeting.

Director Kadas reiterated his commitment to outlining the key issues and recommendations for the committee, while providing a rational basis for the department's recommendations. Director Kadas also promised to work on getting information to the committee two weeks prior to the next meeting.

IX. Adjourn

Director Kadas again thanked the committee members for their participation in the Agricultural Advisory committee. The meeting adjourned at 2:30 p.m.