

MINUTES

Agricultural Advisory Committee Meeting August 25th 2016

PRESENT:

Committee Members:

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

Guest (Mike Murphy-Montana Water Resources Association)

Department of Revenue Staff:

Mike Kadas – Director
Cynthia Monteau Moore – Administrator, PAD
Frank McCall – Management Analyst, PAD
Bonnie Hamilton – Management Analyst, PAD
Michele Crepeau- Legal
Aaron McNay – Tax Policy and Research
Mary Suptic – Management Officer, PAD
Katrina Garrod- Executive Assistant, PAD

Others:

Guest (Chelcie Cargill- Montana Farm Bureau Association)

CALLED TO ORDER: Chairman Jopek called the meeting to order at 8:15 a.m.

OPENING COMMENTS: The committee members introduced themselves and described their backgrounds in the agricultural industry. Director Kadas introduced himself and explained that the Department of Revenue's main issue for this committee's consideration is the cap rate.

DISCUSSION:

I. **Review of Agricultural Land Valuation Methods (Frank McCall) –**

- Frank gave an overview of changes to reappraisal processes and laws that occurred in 2015, including:
 - Carrying capacity requirement for agricultural eligibility increased from 30 to 31 animal unit months;
 - Changed the basis for forage determination used in calculating carrying capacity of grazing land;
 - Animal unit size increased from 1,000 pounds to 1,200 pounds increasing the amount of forage required to sustain an animal unit;
 - Commodity prices increased;
 - Government payments to wheat producers was eliminated;
 - Minimum value for irrigated land increased from \$411.48/acre to \$571.41/acre;
 - Productivity adjustment on summer fallow and continuously cropped farm land changed from a county adjustment to a regional adjustment; and
 - Changed the basis for determining the productivity of non-irrigated dryland hay.
- Additionally, Frank, provided a review of:
 - agricultural eligibility;
 - determining productivity, including a discussion of how adjustments are made to soil survey information;

- Commodity prices; including an estimate of changes anticipated for the 2017 reappraisal. Estimated price increases are as follows:
 - Wheat 5.1%
 - Alfalfa – 12.9%
 - Private grazing fee – 8%
- Crop share and grazing land expense and a discussion on the 2014 leasing study conducted by the department;
- Water cost deductions for irrigated land;
- How the department uses GIS;
- Reappraisal Report discussion
 - Value and productivity changes to agricultural land from 2014 to 2015; and
 - Updates on the number of informal reviews and appeals filed on agricultural land since 2009, showing an overall reduction.

II. **Review of Committee Responsibilities (Director Mike Kadas)** – Director Kadas explained the statute that describes the make-up of the committee, and its duties. He explained that the committee cannot change statute, but the committee may make recommendations for changes for the legislature to consider, and the department would be happy to carry those recommendations on to the Revenue and Transportation Interim Committee (RTIC). The department is most interested in hearing from the committee on averaging methodologies for calculating the commodity values and the capitalization rate. Since rules need to be adopted before the end of the year, leaving only about a month for any more changes, Director Kadas would like to get the committee’s recommendations today.

Public Comment- None

Lunch Break (12:00-12:35)

III. **Committee Discussion and Motions:**

Chairman Jopek stated that this is the point where decisions will be made. John Schutter suggested the committee consider the increase in water costs for irrigated land. Frank suggested that rather than attempting to increase water costs that the committee might consider a different method for calculating the minimum value for irrigated land. It may make sense to consider using alfalfa hay as the commodity for calculating minimum value instead of spring wheat. Director Kadas says he can mention to the RTIC that there are concerns on how irrigated land is being valued, including an interest in increasing the allowable water costs. Director Kadas also said that he may suggest they take a look at how all agricultural land is valued in general.

Motion: James Johnson requested that Director Kadas ask the Revenue and Transportation Interim Committee to consider legislation to deal with increasing irrigation costs.

Second: Anton Beckerman.

Discussion on the motion: Question from John Schutter. If the interim committee makes a recommendation for legislation, will this committee need to meet again in the near future? Director Kadas explained that this

would require a statutory change and that he would be surprised if they would recommend a change to statute at this point, but that it would still be helpful to bring it to their attention for consideration in future sessions.

Motion carried unanimously.

Motion: Anton Beckerman to use the current commodity price averaging methodology (the 10 year Olympic average) for the next 2 year cycle, and to study using a different approach. For example, a weighted average.

Second: Jim Johnson.

No further discussion.

Motion carried unanimously.

- IV. **Cap Rate Discussion:** The current cap rate is 6.4%. Prior to 1993 the cap rate was calculated using an average interest rate + effective tax rate which set it at 6.4%. This has been reviewed and reaffirmed by all committees that followed, including the 2014 committee. The 2014 committee studied calculating a rate using a 5 year average of interest rates from Farm Credit plus an effective tax rate. Ultimately they reaffirmed the 6.4% rate. The department recommends that the committee again consider calculating the cap rate. The department recommends using either a 5 year average or 10 year average of interest rates plus an effective tax rate. This would result in a 5.9% rate using a 5 year average, and a 6.4% using a 10 year average. Director Kadas provided the committee with some examples of what using different capitalization rates could do to values and taxes. During subsequent discussions a committee member clarified that net income is before taxes are deducted and thus the cap rate must include the effective tax rate. This is the standard for ad valorem appraisals.

Motion: John Schutter to keep the cap rate at 6.4%

Second: Jim Johnson.

Motion carried unanimously.

Public Comment: Mike Murphy stated that he likes the consistency of the 6.4% cap rate and because we haven't identified anything that would do a better job it makes sense to stay at this number.

- V. **Further Discussion:** Jim Johnson encouraged the department to conduct a study of the 6.4% cap rate. John Schutter expressed the difficulty he sometimes has explaining how agricultural land is valued to other producers. Director Kadas explained that John may call our Helena or Bozeman office at any time and the department would be happy to have someone contact them to explain our processes.

COMMITTEE SCHEDULE: No further meetings scheduled at this time.

ADJOURN: 2:30 p.m.