

MINUTES

Agricultural Advisory Committee Meeting October 29, 2013

PRESENT:

Committee Members:

Mike Jopek – Chairman
Gerald Nielson
Richard (Buck) O'Brien
James Johnson
John Schutter

On Phone:

Jane DeBruycker
Helen (Jo) Shipman
Dennis McDonald

Others:

Guest (Ralph Franklin)

Department of Revenue Staff:

Mike Kadas – Director
Cynthia Monteau Moore – Administrator, PAD
Frank McCall – Management Analyst, PAD
Bonnie Hamilton – Management Analyst, PAD
Mary Suptic – Management Officer, PAD
Katrina Garrod- Administrative Assistant, PAD

CALLED TO ORDER: Chairman Jopek opened the meeting at 8:20 a.m.

OPENING COMMENTS: Director Kadas introduced Jane DeBruycker as a new committee member. He thanked all of the members for all being active participants of the committee and reminded the members that they are here to bring their expertise to the table, leaving conflicts of interest aside. Cynthia Monteau Moore greeted the committee and informed them that the agenda had been amended so that the commodity price analysis would be discussed earlier in the meeting.

APPROVAL OF MINUTES: Richard O'Brien moved to approve the October 28, 2013 minutes. Seconded by Gerald Nielson. Verification of quorum. Motion Carried Unanimously.

DISCUSSION:

Review of Agricultural Land Appraisal Process (Frank McCall) – General overview of agricultural laws and the processes by which the department values agricultural land.

Commodity Prices Analysis (Frank McCall) - Frank discussed the commodity prices as used in each valuation formula. These are determined by calculating Olympic averages of agricultural statistical data from the years 2001 to 2007. He explained that next cycle we will use Olympic averages for years 2007-2013. Using an Olympic average for 2007-2013, will result in estimated prices of \$18.88-\$21.14 for the private grazing fee, \$8.03 for spring wheat, and \$78 per ton for alfalfa. There was much discussion regarding how this will impact values and taxes. It was generally agreed that the department and committee

should concentrate on getting the prices and values accurate, and defer to the legislature and taxing jurisdictions to address the taxes.

7 year Olympic Average (Frank McCall) – Frank explained the concept of Olympic average as an average of the data remaining after the high and low values in the set are excluded. This methodology is required according to statute as stated in 15-7-201(5)(d)MCA. He presented an example of commodity prices and the resulting Olympic averages over 10, 15 and 20 year time spans for comparison.

Direct Payment Discussion – Frank discussed the history and background of including direct government payments in the valuation formula. The department is working closely with Jim (James Johnson) to develop an accurate allocation of direct payments. Jim explained that these payments accrue to the land regardless of ownership and are based on historical yields of the property. Using the payment data from FSA, the estimated direct payment is \$0.51 per bushel of wheat. The committee will make a recommendation regarding whether a change to direct payments needs to be made for the next reappraisal cycle.

Crop Share Discussion – In a crop share agreement the landowner receives a percentage of the crop produced by the land's tenant. The department uses this percentage to calculate the net income for valuation purposes. For crop lands, net income per acre is the landowner's rental income with the expenses coming out of the tenant's share. For grazing land, net per acre income is equal to the gross income minus the agricultural costs. For example, an owner of grazing land leases the land out for someone for \$15.72 for AUM. The landowner is expected to spend 25% of the \$15.72 on expenses, therefore he collects \$11.79. The committee discussed whether a change to the 25% is warranted. Frank, Bonnie, and Jim Johnson are meeting with MSU Department of Ag Economics and Economics, and Extension Staff to discuss a survey. The purpose of a survey would be to provide the department with data to determine if a change is necessary. Cynthia proposed having 6 months to finalize the survey.

Water Costs Calculation – Bonnie gave the committee some background on water cost calculation, from 1995 forward. In 1995 the advisory committee recommended the water cost fee be adopted. It is now in code and set in three parts: base cost, energy cost, and labor cost. In 2001 the committee recommended that a change from seven cost categories to five. The 2006-2008 committees recommended that the department maintain the previous water cost categories and the minimum value. Legislation was later passed that prohibited irrigated land from being lower than non-irrigated land. Bonnie explained how to determine the total water cost which includes: the three parts of base cost (\$15), the labor cost (depending on what kind of system it is), and the energy cost (If the producer provides the cost). The committee discussed increasing the water costs.

HB 593 Definitions – Chairman Jopek spoke to the committee about HB 593 definitions and reminded the committee that there was a motion on the table to adopt the following definitions: "pertinent" and "site specific," *Pertinent- means scientific, verifiable information relating directly to a specific geographical area that could affect the productive capacity of the land, Site specific- means data associated with a definite*

geographic area, usually composed of a large tract of land, or several parcels of land, characterized by particular patterns of soils, geology, climate, water resources and land use. Site specific data may refer to one continuous area or several separate nearby areas. Site specific data rarely references an individual ownership or an individual parcel of land."

James Johnson moves for a substitute motion of: "*Data associated within a defined geographic area usually composed of similarly situated parcels of land characterized by reoccurring patterns of soils, geology, climate, water resources, and land use. Site specific data may refer to one continuous area or several separate nearby areas. Site specific data rarely references an individual ownership, or an individual parcel of land.*" Richard Obrien seconds substitute motion. Motion passes unanimously.

Proposed Items for Discussion Next Meeting:

- Crop Share/Expense percentages
- Direct Payment Calculation
- Regional Wheat Prices
- Irrigation Costs
- \$411.48 minimum irrigated value
- Alfalfa vs. grass for dry land hay productivity
- HB 593 Processes & Procedures (write up for committee)
- Cap rate (as action item)
- Private Grazing fee

PUBLIC COMMENT: Guest Ralph Franklin thanked the committee for letting him sit in on the meeting.

COMMITTEE SCHEDULE: If we have enough information collected we will schedule a spring meeting, but for now the next meeting is unscheduled.

ADJOURN: Meeting adjourned at 3:00 p.m.