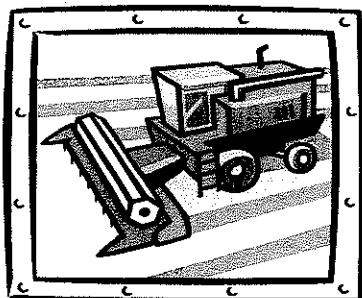


State of Montana – Department of Revenue



Understanding the Proposed Agricultural and Forest Land Reappraisal Project for Tax Year 2009

Montana has more than 55 million acres of agricultural and commercial forest land in private ownership. The Montana Department of Revenue is proposing to implement a new classification and valuation system for these lands based on improved productivity estimates. These changes would be implemented in tax year 2009.

Why Reappraise?

We are required by law to reappraise all taxable property, including agricultural land and forest land, on a cyclical basis. The department must maintain the current classification of all taxable lands and secure an *equitable and uniform* basis for taxation purposes.

In the past, agricultural and forest land has been partially appraised, such as updating the per-acre values in several reappraisal cycles. However, in order to comply with the law, we need to find a way to acknowledge changes in land use and productivity that have occurred over time.

Benefits of Reappraisal

Meets the intent of Montana law

- Creates an *equitable and uniform* land classification system.
- Is not substantially different in concept than the current tax system. Only minor legislative changes may be necessary to current law.
- Creates a seamless classification system for all land in Montana that is valued on a productivity basis.

Uses current technology for more accurate results

- Uses multiple sources of information, including United States Natural Resource Conservation Service (NRCS) soil survey information, Farm Service Administration (FSA) agricultural land use information, existing classification information, as well on-site field reviews.
- Bases land productivity on the physical and chemical properties of the soil and the influence of climate, slope, aspect and elevation.
- Updates the existing forest productivity estimates with improved data sources such as soil information.

- Improves forest land/non-forest land delineations.
- Reflects average productivity management over long-term conditions.
- Measures changes in productivity between soils in different soil mapping units without regard to current management practices.
- Creates flexibility to adapt based on changes in management, technology, markets or the environment.

Is easier and less costly to administer

- Moves from a labor-intensive and costly manual-based system, to a technology-based system.
- Eliminates the potential for subjective decision making by department staff when determining land productivity.
- Does not require additional staff to maintain agricultural and forest land tax systems.

Timeline of Reappraisal

July 1, 2006

The Department of Revenue began to develop the new system under the guidance of the Agricultural Land Advisory Committee.

December 2008

The department plans to mail maps/aerial photos to each landowner, over approximately a 12 week period, showing the classification (use) of the land and the productivity (yield) of the land under that use. These maps/photos might look similar to the photos produced by the FSA each year.

- If you have irrigated land under your ownership, a questionnaire will accompany the maps/photos. So while you're reviewing the classification of your land, we ask that you complete the questionnaire by providing the 2007 energy costs associated with the irrigated land on your property.

Fall 2008

Ag producers will have time to comment and, if necessary, have the department of Revenue make changes to correct misclassified land.

December 31, 2008

Reappraisal of agricultural land and forest land will be completed.

January – April, 2009

The Legislature will have final review of the system and will be presented all information concerning the potential impacts to producers. Ultimately they will develop laws and policies for dealing with any potential impacts.

Tax year 2009

The new reappraisal values will be implemented in tax year 2009.

Spring 2009

The agricultural land and forest land classification maps, along with key information used to develop land assessments may be viewed at the local Department of Revenue appraisal/assessment office where the property is located. Landowners are encouraged to review the land classification maps to verify that the information the department uses for their property is correct.

The department will mail new property tax assessment notices to all property owners. The assessment notice will show the previous value as well as the new reappraisal value. The values on the assessment notices will reflect any changes the 2009 Legislature deems appropriate to address increases or decreases in the agricultural land and forest land reappraisal values.

Basis for agricultural and forest land valuation

Classification

Classification describes how land is being used.

Agricultural land is being classified using a combination of Farm Service Administration (FSA) information, existing Department classification information, as well as on-site field reviews.

- The proposed agricultural land system will continue to use the five agricultural use categories. They are:
 - non-irrigated summer fallow farmland,
 - non-irrigated continuously cropped farmland,
 - irrigated cropland,
 - non-irrigated continuously cropped hay land and
 - grazing land
- Fruit orchards, vineyards, cultivated Christmas tree plantations, sod farms and nurseries are also identified as agricultural uses. Grazing land would include both irrigated and non-irrigated rangeland used for grazing livestock.

Forest land is being classified based on recent aerial photography and on-site reviews.

Commercial forest land has to meet certain ownership, acreage and production standards. The productivity of forest land has been determined based on a model developed by the University of Montana School of Forestry and Conservation. The model includes climatic information, site specific information and soils information which are all factors associated with forest land productivity.

To aid in classification, the department is creating a geographic information system (GIS) containing all of the information about agricultural and forest land. Simply put, a GIS is a map containing multiple "layers" of information about land.

The reappraisal relies on a number of sources of existing information to create the GIS:

- First, the Department of Administration/Geographic Information System team has created and maintains an ownership layer in the states cadastral website. The information is based on Department of Revenue ownership information.
- The department joined a group of state agencies that acquired statewide aerial color photographic coverage from the USDA Aerial Photography Field Office. The color photography used includes both 2005 and 2006 data (most recent available).
- Through a Freedom of Information Act request, the department was able to obtain field boundary line work from the FSA. This line work information depicted whether the land was being farmed or grazed; however, it didn't include any other information about the land.
- Using GIS technology, ownership information was combined with the FSA line work information identifying the use as either farmland or grazing land onto the color aerial photography.
- In late 2005, GIS technicians began to do a preliminary review of the use of the land, based on the current five agricultural uses. Starting with FSA indicators, land was classified based on a visual inspection of the photo. GIS technicians also performed field checks and on-the-ground visual inspections.
- Once the GIS technicians had completed their review of a county, the maps/aerial photos were sent to county appraisal staff who also conducted ground truth activity within each county. Appraisal staff corrected any misclassified line work, added new line work where appropriate, verified ag uses, and conducted interviews with many producers. Also during this process, over 25,000 global positioning satellite (GPS) points were captured to ensure adequate coverage.

- The maps/aerials were returned to Helena staff in the fall of 2007 and the GIS technicians made the identified corrections.

Productivity

Productivity is the amount of wheat, alfalfa, forage or timber that can be grown on the land under normal management. Once land is classified, a productivity system is used to measure the relative value of the soil for agricultural or forestry use. A good rating system takes into account the physical and chemical properties of the soil as well as the influence from climate, elevation, slope and aspect. Within a taxing jurisdiction, an assessed value based on productivity should vary only on the relative quality of the soils on a landowner's property, not on how poorly or how well they manage their agricultural or forestry operation. Under current law, the pressures of urban influences or land speculation are not allowed to influence productivity values.

Using the NRCS soil survey, yields will be objectively calculated on the basis of soil properties and the influence of climate on those soils. Adjustments will be made to the productivity from the NRCS soil survey information – using production information from Montana Agricultural Statistics Services – to more accurately reflect long-term countywide average production.

On grazing land, productivity will be determined as if it is native, non-irrigated rangeland, even if the operator has planted domestic grass species to improve productivity. On all non-irrigated farm land, productivity will be based on the land's ability to produce non-irrigated spring wheat. Spring wheat is the most common small grain crop in the state and is capable of being grown in virtually all locations. Formerly, "wheat" was the basis for commodity price and yield.

Valuation

The basic agricultural land valuation formula, established by law, is:

$$V = I / R$$

V is the per acre land value for each use type.

- The per-acre gross income is calculated for each agricultural use category based on the land's productivity and the commodity price for base crops or the private grazing land lease rate. Each appraisal cycle, we update the commodity prices that are used in the formula to establish agricultural land values.
- Non-irrigated summer fallow land and non-irrigated continuously cropped farmland use wheat as the base crop for valuation while irrigated cropland and non-irrigated continuously cropped hayland use alfalfa hay as the base crop for valuation. The private lease rate to pasture an animal unit for one month is used for grazing land.

I is the per acre net income for each use type (for example, gross income less expenses).

- The net income per-acre is determined by deducting agricultural costs from the gross income per-acre. For agricultural land, net income is determined using a crop share approach to determine the landlord's share of income.

R is the statutorily set capitalization rate

- Net income is divided by a capitalization rate set in Montana statute to produce the per-acre assessed value.

Potential Tax Impacts

If your land use has changed, an update to the classification could impact the value of your land. For example, if your land is currently listed as grazing land, but the land use is corrected to summer fallow farmland, there could be a change that will affect your overall assessed value.

Grazing land

If the carrying capacity of your land changes due to the soil survey information, you may see a change in assessed value. However, significant overall changes in the carrying capacity of grazing land are not anticipated.

Farm land

We expect to see an increase in the per-acre yield for farm land in most areas of the state due to improvements in technology, equipment and fertilization. In some of the areas, there could be a decrease in productivity as well. With an increase or decrease in yield, one can expect a change in assessed value.

Irrigated land

When the current irrigated production information was gathered over 40 years ago, the primary irrigation practice was flood irrigation. Today producers use much more efficient irrigation methods and more intense management. As a result, irrigated yields have increased. There's also been a conversion of dry farmland and grazing land into irrigated land in Montana. We expect to see increases in the productivity of irrigated land, but we don't expect it to be any more significant than the change for other types of farmland.

What's the bottom line? Are my agricultural and forest land taxes going up?

The answer to that question is dependent on at least two factors: changes in taxable value, and changes in mill levies. Please keep in mind that the assessed value of your land is not nearly as critical to your tax liability as the taxable value of your land.

How is taxable value calculated and who controls that calculation?

The Montana Legislature specifies the tax percentage for all classes of real and personal property. The taxable percentage is applied to the assessed value to produce the taxable value. If history has taught us anything, it's taught us that the Legislature will do all they can to maintain taxable value neutrality on a statewide basis by adjusting the tax percentage. The Governor and the Department, along with the Agricultural Land Valuation Advisory Committee, will recommend that taxable value neutrality be maintained. The Montana Legislature will ultimately decide if any increase in reappraisal values will translate into higher taxable values.

Can I do anything about mill levy increases associated with reappraisal?

The state, local governments and local schools apply mill levies to the taxable values to produce the property tax. Since 2009 is a reappraisal year for all residential and commercial property as well as agricultural and forest land property, there will be greater scrutiny and pressure on all taxing entities to hold the line on mill levy increases. So, the best thing you can do is keep an eye on your local taxing authorities and pay attention to the 2009 Legislative Session. If it looks like they're not doing enough to reduce the mill levies, you should speak up. If reappraisal causes an increase in taxable value, there could (should) be a corresponding reduction in mill levies.

Are irrigated energy costs still an allowable expense deduction?

Yes, the 2007 energy costs for applying water to irrigated land will continue to be an allowable expense. Energy costs include the electricity or fuel needed to power an individual's pumps and/or irrigation systems. The department will contact irrigated landowners in the summer of 2008 and will ask them to provide the 2007 irrigated energy costs.

By using the new system, the reappraisal of forest land would create more precise delineations between forest land and non-forest land. That's very important as we try to accurately reflect each taxpayer's property tax obligation. Additionally, with better soil and precipitation data that is available today, the forest land productivity estimates will be much more accurate and precise.

