

MINUTES

Agricultural Land Assessment Implementation and Oversight Task Force



Representative Larry Rhoden, Chair
Senator Larry Tidemann, Vice Chair

**First Meeting, 2017 Interim
Monday, September 18, 2017**

**Room 413 – State Capitol
Pierre, SD**

The first interim meeting of the 2017 Agricultural Land Assessment Implementation and Oversight Advisory Task Force was called to order by Mr. Jim Peterson, Past Chair, at 10:29 a.m. (CDT), on Monday, September 18, 2017.

A quorum was present with the following members answering roll call: Representatives Lee Qualm and Larry Rhoden; Senators Gary Cammack, Craig Kennedy, and Larry Tidemann; Public members Mr. Trevor Cramer, Mr. Kyle Helseth, Mr. Matt McCaulley, Mr. David Owen, and Mr. Jim Peterson. Excused: Representatives Steven McCleery and Ray Ring; Senator Jason Frerichs, and Mr. Mike Wiese.

Staff members present included Ms. Amanda Jacobs, Senior Research Analyst; Mr. Fred Baatz, Principal Research Analyst; Mr. Lucas Martin, Fiscal Analyst; and Ms. Kelly Thompson, Legislative Secretary.

Note: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council office. This meeting was web cast live. The archived web cast is available at the LRC website at <http://www.sdlegislature.gov/>.

Opening Remarks

Mr. Jim Peterson said he was pleased to see some familiar faces back on the task force because of the knowledge they've gained in serving the past several years. Mr. Peterson commented that despite the belief that the agricultural sector isn't paying their fair share of taxes, farmers and ranchers are now paying more in taxes with the implementation of the ag productivity valuation method. He asked the task force to consider capping all classes of property at 3% for at least 3 to 5 years.

Election of Officers

Mr. Peterson asked for nominations for the position of Chair of the Agricultural Land Assessment Implementation and Oversight Advisory Task Force.

A MOTION WAS MADE BY SENATOR LARRY TIDEMANN, SECONDED BY SENATOR GARY CAMMACK, TO ELECT REPRESENTATIVE LARRY RHODEN AS CHAIR OF THE AGRICULTURAL LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE. The motion prevailed on a voice vote.

Newly elected chair **Representative Larry Rhoden** asked for nominations for the position of Vice Chair of the Agricultural Land Assessment Implementation and Oversight Advisory Task Force.

A MOTION WAS MADE BY REPRESENTATIVE LEE QUALM, SECONDED BY MR. JIM PETERSON, TO ELECT SENATOR LARRY TIDEMANN AS VICE CHAIR OF THE AGRICULTURAL LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE. The motion prevailed on a voice vote.

Representative Rhoden thanked Mr. Peterson for his leadership and noted that a lot of good discussion and legislation had come out of the task force in the past and he hoped that would continue in the 2017 interim.

Senator Tidemann also thanked Mr. Peterson and Representative Rhoden for their guidance on the task force and commented that serving on the group has been a great learning process.

Review of the School District General Fund Formula

Ms. Tami Darnall, Chief Financial Officer, Department of Education, discussed the recent changes to the state aid to education formula ([Document #1](#)). Previously, the formula determined total need by multiplying the per student allocation by the fall enrollment for the school district. The revised formula combines total teacher compensation and overhead costs to calculate total need.

Due to the growing issue of teacher compensation, Governor Daugaard brought together the Blue Ribbon Task Force on Teachers and Students. The Blue Ribbon Task Force determined that more funding was needed for education to increase teacher salaries in South Dakota and that a better understanding of how those monies were being spent was necessary. Several bills passed by the 2016 Legislature adjusted the state aid to education formula to include teacher compensation and set up various accountability provisions for new funding.

Senator Cammack and Representative Rhoden inquired as to how student numbers fit into the updated formula. Ms. Darnall replied they are included under teacher compensation and the maximum ratio of students to teacher (15 to 1) is unchanged. The overhead cost is currently at 31% but will increase as other revenues are equalized.

Mr. Peterson wondered if the new formula gives an advantage to larger school districts. Ms. Darnall said it is up to the school districts as to how they want to staff their facilities and funding was offered for shared services between districts and e-learning opportunities. At Representative Rhoden's request, Ms. Darnall will provide an updated spreadsheet to all task force members showing the funding allocations by district.

Ms. Darnall provided information on current property tax levies and reminded members that while property taxes are collected on a calendar year basis, school district funding is figured on a fiscal year basis. Levies are set to maintain the state and local share for two years out. The state/local proportion is adjusted annually to reflect adjustments in local effort due to equalizing other revenue. For Fiscal Year 2019, the adjustment will be slightly lower than the previous year fiscal year due to Senate Bill 35 from the 2017 legislative session which increased the ag levy for a limited time to pay for the Animal Disease Research and Diagnostic Laboratory at South Dakota State University.

House Bill 1182 was passed by the 2016 Legislature, increasing the state sales tax by half a penny and allocating 34% of the proceeds to property tax relief, 63% to teacher salaries in school districts, and 3% for salaries at postsecondary technical institutes. Ms. Darnall said the increase was projected to generate approximately \$36 million for property tax relief for the first year and the levies were adjusted accordingly; revenues fell short of those projections. Language was removed that would have had adverse effects on retroactive budgets for schools. Senator Larry Tidemann noted that many school boards did not understand the implications.

Ms. Darnall clarified the six areas being equalized under the current state aid to education formula and counted as local effort: gross receipts tax on utilities; local revenue in lieu of taxes; county apportionment of revenue from traffic fines; county revenue in lieu of taxes; wind farm tax; and bank franchise tax. She also relayed that while the base will decrease from Fiscal Year 2018 to Fiscal Year 2023, the amount of state aid to education will not see a corresponding decrease.

Ms. Darnall concluded by noting that the accountabilities from Fiscal Year 2019 going forward require a district's average teacher compensation be greater than it was in Fiscal Year 2017 and if it isn't, state aid to general education funding will be reduced by \$500 per teacher in the next fiscal year. She also stated statutory caps on school district general fund reserves (in the form of a tiered reserve cap system) were reinstated beginning in Fiscal Year 2019 and that the sunset of the temporary capital outlay flexibilities was repealed, making them permanent.

Ag Land Assessment – Report on the 2018 Assessment information

Mr. Michael Houdyshell, Director, Division of Property and Special Taxes, Department of Revenue, addressed the task force regarding the 2018 Assessment Year, reporting that all but five counties in the state are at full productivity valuations for cropland and noncropland ([Document #2](#)). All counties must be at full productivity for 2019 property taxes payable in 2020.

Mr. Peterson asked if property valuations in the northwest corner of South Dakota were skewed by the drought conditions in that area. Mr. Houdyshell responded that Butte and Fall River Counties have irrigation adjustments back to dry land values. Representative Rhoden commented when the 150% rule was used to calculate land values, it caused the largest share of problems in West River counties and that we are currently seeing the end of that effect.

Mr. Houdyshell stated 20 counties reported decreases in market value over 2017 and ag land valuations are stabilizing across the state. To Senator Cammack's question regarding the percentage of land in counties in Northwestern South Dakota that is considered cropland, Mr. Houdyshell replied that he can provide that specific information to the task force but estimated the percentage to be less than 50%.

The statewide average for Agricultural Bare Land Sales and Medians was 44.4%. Median ratios should be below 100% to ensure that land is not being over-assessed. **Mr. David Owen** inquired as to what the average was before the productivity method was used; Representative Rhoden suggested the data still existed for Mr. Houdyshell to determine that calculation. He said the current median ratios indicate the state is on the right track.

Mr. Houdyshell reported on the success of the riparian buffer strip property tax incentive program created by the passage of Senate Bill 66 during the 2017 session. Under the program, landowners can receive a 40% reduction in their property value for any eligible riparian buffer strip. The Departments of Agriculture, Environment and Natural Resources, and Revenue worked together to develop web apps and GIS maps to promote the tax incentive. He said the Department of Revenue website alone has received several hundred hits on the information.

Senator Tidemann and **Mr. Trevor Cramer** expressed concern over the impact small numbers of useable sales in a county would have on the median ratio for that county. Mr. Houdyshell responded it's too early to have a full grasp on the impact. He reminded the task force that recommendations from the South Dakota State University research study are due to them by late summer or early fall of 2018 and they are approaching a crossroads for making decisions based on that data.

Responding to Mr. Peterson who'd advised him that he should come up with some suggestions on the valuation issues in the future, Mr. Houdyshell noted the Department of Revenue has been wrestling with the issue for many years and will continue looking for solutions.

Overview of Property Assessment Legislation

Mr. Fred Baatz, Principal Research Analyst, Legislative Research Council, gave an overview of the ballot questions and measures surrounding property assessment and taxation from 1980 through 2006 and legislation from 1989 to

2017. He noted that state laws covering the assessment of property have been amended 31 of the last 35 years ([Document #3](#)). Changes have included freezing or limiting property taxes, creating and repealing property classifications, implementing tax relief programs, and devising new methods for assessing property.

Since its formation in 2008, the task force has about a 55% success rate in getting their legislation passed. Mr. Baatz noted that the number of public members on the task force has gone from 4 to 6 and overall membership has grown from 12 to 14. When the two new members were added, it was specified that one have agricultural experience and one have a business background as appointed by each chamber.

Representative Rhoden recalled a past amendment that would have expanded the purview of the task force; Mr. Baatz confirmed there was such an amendment. Mr. Peterson referenced a document that had been provided previously detailing the duties of task force members. Mr. Baatz provided copies of current statute with that information to all task force members present.

Progress Report on the Soil Ratings Study

Dr. Matthew Elliott, Economics Department, SDSU, reviewed the focus of the Soil Ratings Study ([Document #4](#)), saying researchers have a good general sense of what they're looking at for data and what new methods and updated data may be needed on the project. A peer review of the findings is planned to get alternate interpretations from experts in the field.

Dr. Elliott updated members on the elements being studied which included: current soil uses and agricultural district crop reported yields; methods for classifying the Highest and Best Use (HBU) of cropland; soil productivity ratings; applying Natural Resource Conversation Service (NRCS) climate data; GIS information; and undisturbed land assessment estimates.

In discussing the study results to date, Dr. Elliott noted that acreage shifts would likely occur under the current ag land productivity assessment formula, resulting in more grassland acres statewide. Brown, Corson, Custer, Fall River, Haakon, Harding, Jackson, Meade and Todd counties would likely see net acre changes from cropland to grassland assessment. Brookings, Dewey, Gregory, Lyman and Minnehaha counties would likely see net acre changes from grassland to cropland assessment.

Dr. Elliott concluded by saying data exists for the rest of the counties but additional study on those figures is needed.

Task Force Discussion

Senator Cammack asked Mr. Elliott how important the additional data he's waiting on is to complete the soil ratings study. Representative Rhoden followed up by inquiring whether the next meeting of the task force should coincide with the next plateau of information reached for the study. Mr. Elliott replied the study could still be completed without the additional data and to keep the process moving, he will need some guidance from the task force in the next few months.

Mr. Owen requested the number of acres per category. Mr. Elliott reported that the NRCS shows 47 million unique soil acres in South Dakota with 43 million acres defined as farmland, 19 to 20 million acres of which are currently being cropped.

Senator Tidemann wanted clarification on the HBU statistics provided for Fall River County. Mr. Elliott explained the assessments by soil classification and confirmed that grazing land assessments are not being exceeded in that county. Senator Tidemann noted the research verifies what Fall River County residents have been reporting.

Public Testimony

Mr. David Cap, self, Yankton, expressed his concerns about directors of equalization not considering obstructions and variability in soil classifications when assessing agricultural land. Representative Rhoden agreed it's an ongoing issue and commented that current statutes provide criteria the directors of equalization can use for assessments but doesn't require them to make adjustments. Mr. Cap also asked that county officials and the public be notified earlier of task force meetings so they may attend.

Final Remarks and Adjournment

Mr. Peterson requested that the Legislative Research Council draft legislation limiting the valuation increases on all three classes of property to 3% for the next 3 years and have the bill ready for review at the task force's next meeting which will be Monday, October 30, 2017.

A MOTION WAS MADE BY REPRESENTATIVE QUALM, SECONDED BY SENATOR TIDEMANN, THAT THE TASK FORCE MEETING BE ADJOURNED. The motion prevailed on a voice vote.

The meeting adjourned at 3:05 p.m.