

MINUTES

Agricultural Land Assessment Implementation and Oversight Task Force



Representative Larry Rhoden, Chair
Senator Larry Tidemann, Vice Chair

**Second Meeting, 2017 Interim
Monday, October 30, 2017**

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

The second interim meeting of the 2017 Agricultural Land Assessment Implementation and Oversight Advisory Task Force was called to order by Representative Larry Rhoden, Chair, at 10:35 a.m. (CDT), on Monday, October 30, 2017.

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

Staff members present included Ms. Amanda Jacobs, Senior Research Analyst; Mr. Fred Baatz, Principal Research Analyst; Mr. Lucas Martin, Fiscal Analyst; and Ms. Cindy Tryon, 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/>.

Approval of Minutes

A MOTION WAS MADE BY SENATOR CAMMACK, SECONDED BY MR. PETERSON, TO APPROVE THE MINUTES OF THE SEPTEMBER 18, 2017, MEETING. The motion prevailed on a voice vote.

Remarks from the Chair

Representative Larry Rhoden said while the task force is in the middle of a fairly long process, they are moving in the right direction. He invited anyone in the audience who wanted to testify to do so, and reminded them to sign the guest register.

Senator Gary Cammack reiterated that the process is a marathon not a dash and that he looked forward to hearing the research updates and other information to be presented.

Ag Land Assessment – Factors for Determining Agricultural Income Value

Dr. Matthew Elliott, Economics Department, SDSU, updated members on the progress being made with the Soil Ratings Study. Analysis of preliminary data is indicating a level of acreage shifts from cropland to grassland statewide, especially concentrated in the West River area; hard numbers will be available for comparison and discussion in the near future. He noted the study is progressing on schedule with the timeline established by the Legislature with final results expected to be available by September 2018 followed by a discussion of recommendations with the task force and South Dakota Department of Revenue. Any policy implementation using this data would not occur until 2019 – 2020.

A review of the ag land productivity formula was provided, with Dr. Elliott making recommendations on the capitalization rate and landlord share ([Document #1](#)). Under the Uniform Standard of Professional Appraisal Practice, when the income approach is used, rental data, potential earnings capacity, and rates of capitalization or discount must be analyzed. He reported that the current statutory capitalization rate for agricultural land in South Dakota is 6.6% which is above the implied capitalization rates in the state for agricultural land (2.4% for pastureland, 3.6% for cropland) and the fixed interest rate for agricultural land (5.3%). The statewide average cropland cash rent estimate is below the statutory 35% of the 8-year Olympic Average at about 31%. Dr. Elliott noted that an appraisal of agricultural land should include a risk-adjusted rate of return that reflects the willingness of the market to bear risk.

Representative Rhoden recalled that the landowner's share was the second component to ensure no shift since initially grassland was based strictly on rent data while cropland was using actual productivity value, and 35% landlord share represented zero shift within agricultural land from cropland to non-cropland; he asked Mr. Jim Peterson to confirm his assessment. **Mr. Jim Peterson** said it's important to remember that the task force has been assigned the task to annually review the capitalization rate and could in the future adjust the rate to ensure that too large of a shift doesn't occur onto agricultural land from other classes of property.

Dr. Elliott proposed no change in the current capitalization rate or landlord share as they offset each other but said if a change is proposed for one, it would be a good idea to look at changes to both in order to accurately assess and appraise agricultural land values. He also advised that based on financial forecasts from the Federal Reserve Bank of Minneapolis, in the next two years there could be a fixed agricultural income interest rate roughly around the capitalization rate or closer to it. There is no expected increase in cropland prices going forward. According to Dr. Elliott, evidence and data indicate that a change could be done but additional analysis is necessary to determine what that change should be.

Representative Rhoden commented that the capitalization rate can be a confusing number but it is reassuring to note from the data that we are not as far off the mark as we thought we were for a starting point.

Mr. Peterson voiced concern over the accuracy of soil typing from one county to the next across the state. Dr. Elliott replied that the issue is the crux of the Soil Ratings Study and that the study is not focused solely on the soil data from NRCS (Natural Resources Conservation Service) but also considers other resources such as simulated yield data, prices, climate and weather. Mr. Peterson asked how, based on the current updates, ratings in northwestern South Dakota could increase during several years of drought conditions. Dr. Elliott explained that under current policy, the soil rating is fixed and the drought doesn't impact the designation.

Dr. Elliott concluded by saying that because the NRCS database is not available for public use, it can sometimes be difficult to understand the data and how it's compiled.

Discussion on Draft Legislation

Mr. Peterson presented for consideration a proposed bill ([Document #2](#)) that would limit the increase in the total taxable value of agricultural property, nonagricultural property, and owner-occupied single-family dwellings within any county to not more than three percent in any year for taxes payable in 2020, 2021, and 2022. He noted that much has been done in recent years to address school funding, roads, bridges, counties, and townships, and it seems logical to put similar limits on the growth of existing property. The draft legislation would give taxpayers a three-year break on property taxes and could then be revisited by legislators.

Mr. David Owen asked if the proposal would limit taxable value as opposed to tax revenue and what the 3% would limit. Mr. Peterson clarified that his intention was that every piece of ground, every house, every

commercial business would be limited to 3% or CPI. Representative Rhoden stated that as property values go up, the mill levy is reduced, and wondered if the legislation really accomplishes something in a practical sense.

Mr. Trevor Cramer felt the legislation would cause officials at the county level to have to choose sides, knowing there are other statutes that come into play. Mr. Owen shared Representative Rhoden's hesitation about layering the different regulations and imposing arbitrary caps.

Public Testimony

Mr. Michael Houdyshell, Director, Division of Property and Special Taxes, Department of Revenue, expressed concerns about the proposed bill saying the current guidelines already exist to limit the growth in property taxes that are paid. He acknowledged there was no limit on capital outlay revenue but as part of the new funding formula implemented two years ago, a limit was put into place that is similar to the limit imposed on counties, municipalities, townships, and non-school revenue. Limiting assessment increases could also cause further problems for those counties still struggling with the 150% rule on nonagricultural property that was repealed in 2014. Mr. Houdyshell confirmed the draft legislation would apply to centrally assessed properties, too.

Mr. Mike Wiese inquired what the total taxable value is under productivity as opposed to market value for agricultural land. Mr. Houdyshell said he could provide that information with some analysis but could not answer definitively right now. While he appreciated the intent of the legislation, Mr. Wiese was concerned about the efforts of trying to maintain the relationships between different property classifications.

Ms. Lila Teigen, Director of Equalization, Harding County, reported that in her county, the agricultural community has not been reporting since 2010, meaning calculations are not based on actual numbers which results in misinformation. Efforts to get area ranchers to provide information is being met with resistance. She requested that researchers look further into the situation. Mr. Houdyshell confirmed the number of reports have decreased drastically in the last 3 to 4 years and the 8-year Olympic Average helps address that issue. Sparsity of data has been on the Department of Revenue's radar for quite some time.

Committee Discussion

Mr. Peterson withdrew his draft legislation, saying he's learned over the years how to feel out a committee and judge the way they are leaning; he asked the committee to keep it in mind as the discussion continues in the next several years and the results of the Soil Ratings Study become available.

Mr. Owen asked if when looking at the system used to value land, whether the variation of soil quality was a greater variable than the use of comparable sales. Representative Rhoden commented that statutes allow for the use of market sales to give assessors another tool for determining differentiations. Mr. Peterson added that home sales are closer to reflecting the actual value of a home than agricultural land sales are to reflecting the actual value of the land; this is why soil typing is so important.

Senator Cammack lauded Mr. Peterson for being a wealth of information for the task force, saying he has appreciated the opportunity to work with him on these issues and the information being discussed will be valuable in making decisions in the future.

Mr. Kyle Helseth clarified that market value is to be used to allow for corrections and changes in establishing differentiations between ag land properties not to set values.

Representative Rhoden introduced **Ms. Tami Darnall, Chief Financial Officer, Department of Education** who was asked at the September 18, 2017 meeting to provide an updated spreadsheet at the October meeting showing the school funding allocations by district. Ms. Darnall reported data from school districts is still being collected and verified, and should be available to the task force sometime in November.

Final Remarks and Adjournment

Representative Rhoden said he appreciated the draft legislation and stressed the importance of having these types of conversations. It's his belief steps have been taken to address specific problems identified with capital outlay, county mill levies, and the general fund to education as they relate to agricultural land; it's time to give these solutions an opportunity to work. He announced this meeting would be the last for the task force this interim.

A MOTION WAS MADE BY SENATOR CAMMACK, SECONDED BY MR. PETERSON, THAT THE TASK FORCE MEETING BE ADJOURNED. The motion prevailed on a voice vote.

The meeting adjourned at 12:10 p.m.