



First Meeting
July 28, 2008

LCR 1 & 2
State Capitol Building
Pierre, South Dakota

Monday, July 28, 2008

The first meeting of the Ag Land Assessment Implementation and Oversight Advisory Task Force was called to order by Jim Fry, Director of the Legislative research Council, at 10:04 a.m. (CDT) in Legislative Conference Rooms 1 and 2 of the State Capitol, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Alan Hoerth, Dave Knudson, Kenneth McNenny, and Jim Peterson; Representatives H. Paul Dennert, Larry Rhoden, and Steve Street; and Public Members Walter I. Bones III, Kirk Chaffee, Curt Everson, Larry Gabriel, Ron Olinger, and Duane Sutton. Representative Kristi Noem was excused.

Staff members present included: Jim Fry, Director; Fred Baatz, Principal Research Analyst; and Lisa Shafer, 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 (LRC)).

Staff Remarks

Jim Fry, Director, Legislative research Council, informed the task force that this topic is an important undertaking. It will not be easy, but will be satisfying as the members work together throughout the process. Mr. Fry introduced all the members on the task force that included a mix of legislators and public members.

Election of Chair

(Located on the LRC Archived Audio – 00:06:02)

SENATOR JIM PETERSON MOVED, SECONDED BY KIRK CHAFFEE, THAT SENATOR DAVE KNUDSON BE NOMINATED AS CHAIR OF THE AG LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE.

REPRESENTATIVE DENNERT MOVED, SECONDED BY DUANE SUTTON, THAT NOMINATIONS CEASE AND THAT A UNANIMOUS BALLOT BE CAST FOR SENATOR DAVE KNUDSON AS CHAIR OF AG LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE. MOTION PREVAILED UNANIMOUSLY ON A ROLL VOTE. Those members voting AYE include: Hoerth, Knudson, McNenny, Peterson, Dennert, Rhoden, Street; Bones III, Chaffee, Everson, Gabriel, Olinger, and Sutton. Those members EXCUSED: Noem.

Election of Vice Chair

(Located on the LRC Archived Audio – 00:07:57)

SENATOR KENNETH MCNENNY MOVED, SECONDED BY KIRK CHAFFEE, THAT REPRESENTATIVE LARRY RHODEN BE NOMINATED AS VICE CHAIR OF THE AG LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE.

DUANE SUTTON MOVED, SECONDED BY REPRESENTATIVE STEVE STREET, THAT NOMINATIONS CEASE AND THAT A UNANIMOUS BALLOT BE CAST FOR REPRESENTATIVE LARRY RHODEN AS VICE CHAIR OF AG LAND ASSESSMENT IMPLEMENTATION AND OVERSIGHT ADVISORY TASK FORCE. MOTION PREVAILED UNANIMOUSLY ON A ROLL VOTE. Those members voting AYE include: Hoerth, Knudson, McNenny, Peterson, Dennert, Rhoden, Street; Bones III, Chaffee, Everson, Gabriel, Olinger, and Sutton. Those members EXCUSED: Noem.

Comments from the Chair

(Located on the LRC Archived Audio – 00:09:24)

Senator Dave Knudson informed the task force that the current ag land assessment formula is a production based formula. As a task force, there are three elements that must be performed:

1. Work closely with South Dakota State University (SDSU) and the Department of Revenue and Regulation (DRR) to ensure that a model is designed and finished in an appropriate fashion;
2. Recommend legislation to the Legislature; and
3. Address concerns about the mechanics of the process to ensure the system will operate effectively when implemented.

Duties and Responsibilities of the Task Force

(Located on the LRC Archived Audio – 00:12:08)

Fred Baatz, Principal Research Analyst, Legislative Research Council, distributed a handout entitled “South Dakota Codified laws Regarding the Agricultural Land Assessment Implementation and Oversight Advisory Task Force” (**Document #1**). This handout includes several code sections that specifically address the task force or items that the task force will make recommendations.

Mr. Baatz said that task forces are not unique to South Dakota and other states use oversight task forces and task forces, in varying combinations of academia members and legislators, to regarding agricultural land assessment. The Agricultural Land Assessment Implementation and Oversight Advisory Task Force consists of fourteen members: four legislators appointed by the speaker of the House of Representatives, four legislators appointed by the president pro tempore of the Senate, and six members of the general public. The members serve on the task force until January 12, 2009. At that time, new appointments will be made by the speaker of the House of Representatives and the president pro tempore of the Senate.

Some of the responsibilities of the task force include:

- Advise the department about the promulgation of rules concerning the assessment of agricultural land;

- Review the implementation of the provisions of law concerning the assessment and taxation of agricultural land;
- Report to the House of Representatives and Senate and possibly submit a report to the Governor; and
- Present draft legislation and policy recommendations to the Legislative Research Council Executive Board, which meets November 17 and 18, 2008.

There are two areas that the task force should address in the recommendations to the Executive Board. The first is the proper percentage of annual earning capacity to be used to determine the agricultural income value. Originally, the legislation had two different numbers; one for cropland and one for noncropland.

The second area is the proper capitalization rate in order to have total taxable valuation for the taxes payable in 2011 from agricultural property be not more than the total taxable valuation for the taxes payable in 2010 from agricultural property plus the estimated growth in agricultural property value in 2010. Mr. Baatz informed the task force that there needs to be revenue neutrality between agricultural land and the other classifications on a statewide basis. The current cap rate is set at 6%, but the task force is asked to provide a recommendation for a proper cap rate based on the data received. He informed the members that the changes the task force recommends will affect the property taxes paid in 2011.

House Bill 1005 in the 2008 Legislative session created this task force. All sections of the bill have been codified in law. Mr. Baatz said that SDCL 10-6-33.28 states that the task force will make recommendations as to the landlord's share and the cap rate.

According to SDCL 10-6-33.29, the secretary of DRR is authorized to enter into contracts with SDSU to obtain agricultural data for the purpose of creating a data base to determine the agricultural income value of agricultural land by county.

It states in SDCL 10-6-33.30 that the economics department of SDSU shall submit recommendations to the Agricultural Land Assessment Implementation and Oversight Advisory Task Force by November 1, 2008. Since the Executive Board is meeting November 17 and 18, the task force will need to have all the information and legislation acted on between November 1 and 17, 2008.

Mr. Baatz informed the members that prior to the secretary of DRR promulgating the rules regarding ag land assessment, the secretary must present the proposed rules to the Agricultural Land Assessment Implementation and Oversight Advisory Task Force pursuant to § 10-6-33.35.

Revising the Ag Land Assessment Process
(Located on the LRC Archived Audio – 00:22:14)

Michael Kenyon, Director of Property and Special Taxes Division with the Department of Revenue and Regulation, distributed to the task force maps entitled "2007 Equalized Dollar Per Acre – Total" (**Document #2**). He said that this is an enormous change in the assessment system and it will take many steps to make this transition as smooth as possible. The task force's recommended legislation will take effect on July 1, 2009 and will impact the 2010 taxes that are paid in 2011.

To prepare for the upcoming changes, Mr. Kenyon said that DRR has taken three prominent steps to help ensure efficiency. First, the department has become a liaison with the assessor in the counties. A model of chain of command was created by the department to determine if there are any means to improve the system. Second, the department has expressed willingness to visit with any interested party. Understanding the system is complex, DRR is trying to lessen the confusion by providing information to interested parties. Finally, the department has revised and refined the materials that were previously distributed at other meetings throughout the Legislative session, to ensure the members have all the data needed. The maps previously distributed show the affect to the counties with a revenue neutral cap rate; some counties will increase and other will decrease.

Mr. Kenyon stated that Hughes and Sully counties have similar agriculture land. However, under the market system there is a dramatic difference in values. But under the productivity model, Sully County decreased while Hughes County increased. Hopefully under the new system, DRR will have a value between counties that makes sense where there is not a drastic difference between similar surrounding counties unless warranted by the data.

The old maps that were previously distributed only had one value for agriculture land. The new charts break out the land by cropland and noncropland values by county. The first page of document #2 is the total equalized value per county for both cropland and noncropland. The second page is equalized value for cropland. The third page is the equalized value for noncropland. The department is able to see how the changes will impact both cropland and noncropland in each county.

The information presented is from the 2007 assessment values taxes payable in 2008. The department will have updated information soon. Mr. Kenyon asked the task force to provide feedback as to the format of the information presented.

Mr. Kenyon said that the task force will need to determine the landlord share that will provide the least shift between cropland and noncropland on a statewide basis. Mr. Kenyon believes the model will be able to provide information to the task force to make that decision.

In response to Senator Knudson's question pertaining to the current variation in the taxable values for the counties, Mr. Kenyon said that part of the issue is the quirks of the current assessment system and the other part is the soil quality, terrain, obstructions, weather, moisture, etc. On page 2 of document #2, some of the current disparities are shown on the map. He thinks the problem is irrationality built in the current system based on the lack of information caused by the 150% rule.

Representative Larry Rhoden asked if the different styles or methods used by the assessors contributed to the differences. In response, Mr. Kenyon stated that DRR looks at the same data as the assessors. The information on the maps provided is the equalized value (85% of the fair market value) based on the sales available to the local assessors which is limited by the 150% rule.

In response to **Representative H. Paul Dennert's** question, Mr. Kenyon stated that there is information on the first page of document #2 for both Custer and Jones Counties because it is a total equalized value per acre for all types of land. The department is not able to separate the information by cropland and noncropland because neither county uses the soil survey.

Senator Knudson responded to Representative Dennert's question pertaining to the future of the task force after this interim, by informing the task force that the sponsors of the legislation intended for the task force to continue in 2009 and on. Therefore, new appointments will need to be made, and the task force will only meet as needed, depending on the smoothness of the transition.

Mr. Kenyon stated in response to **Mr. Larry Gabriel's** question, that the soil survey information was used to figure out the percentage of the total acres that were suitable as cropland. Mr. Gabriel commented that land suitable for cropland does not mean it is cropped. The system should seek to determine best use based on various factors. There are many acres that could be cropped, but are not.

Mr. Kirk Chaffee asked if the number of actual acres that are cropped in the county could be compared to the soil survey data. Then DRR could count to see the number of acres that are cropped. In response, Mr. Kenyon said that could be a possible option; however there is not a perfect method to perform that check with the soil survey data. DRR may get better information, but will not get perfect information for every county.

Senator Jim Peterson said that this information is currently compiled and available. The farm service maps the acres and has it divided accordingly.

Mr. Curt Everson said that Congress passed a new farm bill, which may impact the use of agricultural land.

Mr. Kenyon stated that the formula will produce the top dollar value for cropland and noncropland land based on soil surveys and other factors to determine its highest and best use. It will be a major change to assess agricultural land based on actual use.

Senator Peterson said that Senate Bill 1 in the 2005 Legislative Session addressed the cropland and noncropland issue. He is not certain if a definition of noncropland is in statute, and that may be an issue that needs to be addressed by the task force. After Senate Bill 1 passed, the assessor should consider factors for a system to determine whether land is crop and noncrop and not only rely on soil survey data.

Mr. Kenyon said that the directors of equalization will continue to determine whether or not the land is suitable as cropland and that they should continue to update the resources and data available to them. Senator Knudson stated that when the legislation was introduced, actual use was included, but through the process was amended out of the bill. The director of equalization still has the ability with to take into account the terrain, soil quality, obstruction weather, moisture, etc. when assessing agricultural land.

Additional information that was mailed to the task force members includes a memo to the task force members from Michael Kenyon (**Document #3**) and a handout entitled "Property Tax System Change Reform or Revolt" (**Document #4**).

Update on Data Collection and Model for Ag Land Assessment (Located on the LRC Archived Audio – 00:56:14)

Dr. Burton Pflueger, Professor of Economics at SDSU, **Dr. Larry Janssen**, Professor of Economics at SDSU, and **Ben Fairbanks**, SDSU research analyst, provided the members a

PowerPoint presentation and distributed a handout outlining the results of the methodology (**Document #5**).

Dr. Pflueger told the task force that he performed a text search on the Legislative Research Council's website and there were a number of bills introduced in 2008 regarding property assessment. House Bill 1005 from the 2008 legislative session created this task force. Included in the bill were provisions regarding ag land assessment for both cropland and noncropland. Dr. Pflueger said he was able to look at the data for both cropland and pasture land and was able to determine ag land productivity for each county. For his research, he looked at several data sources including sources for land owner share and animal unit carrying capacities.

SDSU has not made a decision as to the best method to address range v. pasture land. The carrying capacity for rangeland value varies from county to county, but he has found a method to make such adjustments in the model and has established statewide process for income based calculation on grassland.

Dr. Pflueger stated that some of the key features of the research at the direction of the Legislature include:

1. Separate cropland from noncropland;
2. Calculate gross returns;
3. Determine landowner's share; and
4. Use an eight year Olympic average.

The productivity system uses Olympic averaging which has a smoothing affect on the values derived. Dr. Pflueger recognizes the model will not be a perfect fit for all land, but the object is to have the best fit. SDSU will take into account some of the factors that have been addressed by the task force. SDSU is attempting to minimize the assessed valuation shift on a statewide basis; however, there will be shifts between counties and landowners.

To collect data for cropland, SDSU used the National Agricultural Statistic Service (NASS) data from 1996 – 2007. Dr. Pflueger was able to establish a trend using eight year Olympic averages. Data was available on a statewide basis with different commodities available at a county and state level. Some of the data available on the county level include: plantings, harvest, and yield. For each commodity, SDSU used a statewide price.

On the county level, there is commodity information available for: corn for grain, corn for silage, flaxseed, hay alfalfa, hay other, oats, rye, sorghum for grain, soybeans, sunflower all, wheat durum, wheat other spring, and wheat winter all.

Dr. Pflueger provided an example of the calculation approach for Aurora County. The data reviewed for each county includes: crop history for each commodity in that year, planted acres, harvested acres, total production, yield per planted acre multiplied by the statewide price to obtain the total gross return per acre.

Determining the return to the landowner or landowner's share became more complex than anticipated. The farm data from Mitchell Technical Institute's (MTI) farm management program was used in the compilation of data. The 2008 report will be the last time this information source will be available due to the program funds being cut, and therefore SDSU may need to find another data source for the calculations.

Dr. Pflueger said that the information gathered from the MTI report includes data from surrounding counties. To expand the research, SDSU gathered information from counties in other states that border South Dakota. Information was obtained from the University of Minnesota and numerous state associations.

Shown in document #5 is the effect of separating all corn in Minnesota from the ground owned by the farmer that is farming the land. The effect would be a decrease from 19,000 to 7,000 farms. Dr. Pflueger informed the members that included in the handout is the data for only corn production under share rent arrangements.

According to MTI data, about 52% to 53% of the revenues were the landowner's share. The information presented in the University of Minnesota's data showed that the landowner's share was about 54% to 55%. Due to the closeness of the data and from a data integrity standpoint, SDSU felt the information was valid.

In response to Senator Knudson's question pertaining to the expenses for the operator and landowner, Dr. Pflueger said that SDSU approached the model as the net return to the landowner over variable cost. They removed seed, fertilizer, chemicals, operating interest, and other similar costs in that type of category; without removing return to management or cost for landownership.

Representative Rhoden stated that the statute passed sets the guidelines for the landowner's share. The economics department from SDSU is required to submit recommendations to the task force that provides the least amount of shift between ag and nonag land and cropland and noncropland. In response, Dr. Pflueger said that through the research, they looked at valuation methods that assumed a 30% landowner share. He wanted to study whether one method was a better predictor of what the land value should be than another.

Senator Knudson commented that the amount available for the operator and owner occurs when another person farms the land other than the actual landowner. In response, Dr. Pflueger said that amount is to cover the landowner's expenses and investment.

Mr. Gabriel asked if most states look at principal crops. A volatile price scenario for certain crops may influence planting on the short term which could result in a volatile assessment if only the most recent data for that land is used. If the task force uses the principal crops along with the Olympic average, there will be a closer determination of the actual crops grown on the land over a period of time. Senator Knudson said that the crops vary county by county. It would not matter if a person's farm was completely dedicated to one crop, because the formula assumes the person is farming all the crops in the county.

In response to Representative Dennert's question about the 40/60 split, Dr. Pflueger said that when he was approaching the data source, he looked at the operator owning the land. From that 40% of the income went to producing the crop and 60% went to all other aspects that could possibly be split with the tenant.

The task force recessed at 11:46 a.m. and reconvened at 1:06 p.m.

For noncropland, Dr. Pflueger said that SDSU was able to look at pasture production and other forage production to find parallels. He looked at the amount of forage available for

grazing; which is about 25% to 55% less than the corresponding hay. After comparing the pasture yield to the forage yield, a 55% utilization rate for forage was determined.

Dr. Pflueger said that the method used looks at all the years of forage production from 1996-2007 and determines the forage yield for tons per acre. Recognizing that grazing only uses a fraction of the available crop, there is a net return adjustment. Based on the productivity of other forage, the gross value per acre is determined, assuming a 30% landowner's share cap for the land value.

Another method used looked at the NASS for the total number of cows and calves, and then divided by the number of pasture acres to calculate the number of acres per cow. NASS receives reports on the number of cattle and beef cattle that are on hand every January. The gross revenue per acre for noncropland was determined.

In response to Mr. Walter Bones' question pertaining to expenses, Dr. Pflueger said that the expenses would be accounted for in this method the same as in the cropland method.

Dr. Pflueger said, in response to Senator Mc Nenny's question, that the number used was the reported amount from NASS for the calving percentages. He is not certain if there is a standard form to report the number of cows.

Senator Mc Nenny asked how the animal unit capacity for a certain unit of land was determined. In response, Dr. Janssen said that this is a trial run. The number of pasture acres reported was weighted against the number of beef cows to determine the number of acres per beef cow.

Dr. Pflueger showed a slide of Harding County that illustrates the change on a yearly basis. However, when the eight Olympic average is applied, the fluctuation decreases and the year to year average is more consistent. Shown on page 1 of document #5, the top line is the new revenue capitalized at 6%. This is used as a baseline for counties as to what the method would do if the ag statistics were used as a value target. There are fluctuations of land values yearly, but generally the Olympic average has a tendency to follow the same format over time. When using the Olympic average, there was a 30% landowner return in most western counties; which is almost identical to the return calculated by NASS. In the east counties, the net return approximates the land values and not the landowner's share.

Senator Knudson expressed a concern with using NASS data because it is self-reporting and there may be some inaccuracies.

Mr. Olinger was surprised by the results of the Olympic averages because he assumed the averages would not go backwards. He wanted to know if it would be better to set a value today and let the value fluctuate from that point, due to inflation and escalating costs of production. Unless there are decreasing oil prices, the state will be locked in for a period of time with lower costs of production. Prices have drastically changed in the past eight years, and he does not want to use the previous numbers to represent current reality. In response, Dr. Pflueger said that the research includes that with 2000-2007 data. The 2008 prices will be averaged with the 2001-2008 prices. When conducting the research, they also looked at high commodity prices. He thinks that there is more stability with the Olympic average when the highest and lowest numbers are removed.

Representative Rhoden said that the task force has stated legitimate concerns with escalating crop prices and costs of inputs. Based on the legislation, this relationship could be reviewed on a yearly basis.

Senator Peterson said that the discussion indicated that the task force needs to use net income and not gross income because the input costs have increased. The expenses are increasing dramatically and the profit margins are still small.

Senator McNenny stated that gross income methodology needs to be reviewed. If there is a net return average rather than gross return average, it would provide a better means to determine the return to the land.

Mr. Gabriel commented that the bill addresses gross income. The only place for net income is for a model of the share for the landowners. There could be a different number for both crop and livestock.

Dr. Pflueger requested input from the task force members as to where the members would like to have the analysis carried next. The South Dakota data concerning return to landowners will only be available through 2008. After that, the farm program at MTI will not longer be funded. He stated that SDSU may need to find another method to obtain the information.

In response to Mr. Bones' question about future projections, Dr. Pflueger stated that his research model is set up to allow for projections, as long as he is allowed to make assumptions. There could be lots of speculation, however it is possible. Representative Rhoden stated that this approach will allow the members to see potential problems and possibly address them in advance.

Additional information distributed to the task force includes:

- "South Dakota Agricultural Market Trends 1991-2008" (**Document #6**);
- "South Dakota Agricultural Market Trends 1991-2007" (**Document #7**); and
- "South Dakota Agriculture: 2008" Statistics Book (**Document #8**).

Public Testimony

(Located on the LRC Archived Audio – 02:40:17)

Mr. Rick Vallery, South Dakota Wheat Inc., told the task force that they need to take the process the state currently has, that to the best of the ability, is revenue neutral for the first year. The members have an opportunity to use a process that is used in many other states with some differences.

The legislation points out that although state and county data with soil survey, we need to have the local assessors have the ability to make local adjustments. The adjustments may vary.

Mr. Vallery said that the members have all the information needed in the South Dakota Agricultural 2008 statistic book to determine the crops in each county. The principal crops are corn, hay, soybeans, and wheat.

In 1985, all CRP land was cropland, because the program was designed for taking those acres out of production. At that time, South Dakota has about 1.5 million acres in CRP land. About

350,000 acres were removed from the program last year and about 800,000 acres are up for contract this year. A large majority of the CRP acres are reverting back to cropland.

Mr. Vallery said that using the formula to establish the Olympic average removes the speculation in land values as commodity prices are going up. However, the task force also needs to be concerned about a four year downturn at some future point in time. The task force will have the ability to make adjustments to the cap rate if needed.

Mr. Vallery stated his disappointment with the 9-9 vote last session in the Appropriations Task force to cease funding for the farm program at Mitchell Technical Institute (MTI). With some drawbacks, he thinks the information provided from MTI is the most accurate report in the state. The program needs to be revisited, possibly expanded, and maybe even placed under the Department of Agriculture.

During task force discussion, it was stated that the task force would be able to reevaluate the cap rate in the future based on the gross revenue and net revenues in the actual market place. The meeting today is to provide the members information as to the research SDSU has performed and provide SDSU guidance as to the specific information and numbers the members want to review.

Mr. Kenyon stated that pertaining to the adjustment between the current system and the new system, the task force needs to be as revenue neutral as possible. The members should use the data from SDSU to determine the factors that require legislative action.

The task force recessed at 2:29 p.m. and reconvened at 2:43 p.m.

Task Force Discussion

(Located on the LRC Archived Audio – 03:06:02)

Senator Knudson said that the task force should strive for simplicity whenever they can. The members need to remember that the model should be understandable to the public and revenue neutral on a statewide basis. The task force is directed to minimize the shifting between cropland and noncropland.

Role of Government Payments

Mr. Olinger encouraged the inclusion of government payments because it was part of the farm income value. Senator Peterson agreed and said that there were many years when the government payments were the only source of income to farmers.

In response to Senator Knudson's question about the payments creating mechanical difficulties, Dr. Janssen said the due to the lag of time, it should not be an issue to add the government payments and provide information on a timely basis. Dr. Pflueger asked if the task force wanted to include disaster payments, provisions for haying and grazing, and crop insurance and indemnity payments as part of the government payments. If all payments are included, it could be a fairly broad category and would likely increase the value per acre for cropland.

Dr. Janssen responded to Representative Dennert's question by informing the task force that according to the standard FSA data, the government payments do not include multi-peril payments.

Mr. Gabriel said that the task force should not include disaster payments to the farmer because the members are already looking at productivity as yield and price. The payment above the price should not be included. The formula needs to remain simple to allow the people paying the taxes to understand.

Senator Knudson asked if the payments would be counted twice when a government payment is received. Mr. Olinger disagreed and said because the payments are gross receipts, the task force needs to look at all sources of income.

After further discussion, it was determined that the task force will include government payments in the formula without crop hail and disaster payments.

Effect of New Farm Bill

Dr. Pflueger said that the task force needs to consider the period when the legislation passes, will the farm policy include the CRP payments. It will come back to management choices. He asked the task force whether CRP payments should be credited to the cropland or noncropland portion.

After task force discussion, it was determined that CRP payments should be included on the cropland portion.

Gross Revenue – Landlord Share

Senator Knudson said that the task force is asking SDSU for a single percentage for cropland and a single percentage for noncropland. The two numbers do not need to be the same, but the numbers need to be statewide.

Noncropland Methodology

Mr. Everson said that the legislation stated the task force needs to use an animal unit month (AUM) based methodology.

Mr. Gabriel and Senator McNenny said that the animal unit month is currently understood by most ranchers and farmers. It could be confusing to the people if a different method was used. The type of crops planted varies from year to year, but the animal units are fairly stable.

It was determined after further task force discussion that AUM methodology will be used in the model.

Other Cropland Related Issues

In response to Senator Knudson's question about the determining factors for the number of crops planted in each county, Dr. Pflueger stated that all the crops in National Ag Statistics Service (NASS) are currently included in the model. The report from NASS includes the number of acres planted and harvested for each crop in a county. SDSU is able to limit the range of commodities of production in a county in a given year.

In response to Senator McNenny's question about the definition of a major crop, Dr. Pflueger stated a major crop is considered any crop that is reported by NASS. If a crop is not included in the statistics, SDSU did not find a secondary source of data.

Mr. Olinger stated that the bigger problem is that the crops grown are driven by the input costs. He is not certain how the task force will balance everything when using gross income because when prices increase, farmers switch crops. Dr. Janssen responded by informing the members that the NASS data spreadsheet is all the crops planted and harvested with total production for a particular year in the state. The type of crops varies across the state, but based on the Olympic average and using the formula, the state is able to account for changes in plantings. The system allows for producers to change their crops, and the changes will be reflected in the numbers over a period of time.

After further discussion on limiting the number of crops based on a particular number or percentage, Dr. Pflueger stated that he is not certain if limiting the number of crops would help the process. The NASS report accounts for 90% of all cropland in all the counties in the state. The task force determined it would be best to include all crops in the data.

Actual v. Highest and Best Use

Senator Knudson asked for discussion on whether assessments should be based on actual or highest and best use. The language referring to actual use was deleted in the legislative process.

Mr. Kenyon stated that this topic is an issue and if the task force determines to use actual use, DRR will need to reevaluate many of the assumptions already made in the process. Also, the assessors will need to be updated and informed of any new changes. In response to Senator Knudson's question, Mr. Kenyon said that revenue neutrality is in doubt with this process, and the determining the cap rate may be more complex. He is not certain if DRR will be able to efficiently accomplish this in the time frame available.

Senator Peterson commented that the task force is discussing two different issues. The best use refers to tillable land. Tillable land that is changed back to pasture land has been addressed in previous sessions. Representative Rhoden said that if this is a separate issue, he is not certain if it would be appropriate for the task force to further address. After further task force discussion, it was determined that the task force does not have authority to determine if land is tillable or not.

Olympic Average issue

Senator Knudson reminded the task force in previous years, prices were lower than the current high prices. This is an issue that is presumably taken into account in the landlord's share percentage. The cap rate is not something that should be adjusted frequently; however it should be monitored. He requested SDSU prepare test scenarios using 2007 and 2008 prices to possibly project future implications of the current market trends.

Representative Rhoden commented that the task force needs to use an eight year average based on the legislation that was passed. Senator Knudson responded that the task force is in a position to make recommended changes to the law based on information presented.

Representative Rhoden stated that according to the approved legislation, ag income value is defined as the landowner's share of the gross return.

After task force discussion, Senator Knudson requested that SDSU provide a model to demonstrate the sensitivity to market prices. In response, Dr. Pflueger stated that it will not be difficult to develop a model simply based on recent prices. It is better to review the current

information than to make assumptions as to what will change in the future, (i.e. prices, weather, etc). It is the request of the task force that the model be based on statewide prices.

Staff Directives

Mr. Bones requested that contact information for all the task force members be provided to the task force members.

All information that is prepared in advance of the next meeting should be mail to the members.

Next Meeting

The next meeting of the Ag Land Assessment Implementation and Oversight Advisory Task Force is scheduled for September 8, 2008, in Pierre, South Dakota.

The third meeting of the Ag Land Assessment Implementation and Oversight Advisory Task Force is scheduled for November 14, 2008, in Pierre, South Dakota.

Adjourn

REPRESENTATIVE RHODEN MOVED, SECONDED BY SENATOR HOERTH, THAT THE TASK FORCE ADJOURN. The motion passed on a voice vote.

The task force adjourned at 3:58 p.m.



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