HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 681 **DATE:** March 13, 2007

Version: As introduced, with author's amendment H0681A1

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Subject: Property taxation of agricultural land

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Overview

H.F. 681 exempts agricultural land and buildings from school district levies for capital improvements, for bond levies approved after June 30, 2007.

It establishes a system for valuing agricultural land based on its agricultural production value, beginning with taxes payable in 2010. A State Board of Agricultural Land Valuation is created and charged with developing a system for valuing agricultural land based on productive capacity of the land, commodity prices, costs of agricultural inputs plus a return on investment. Provides that the taxable value of each agricultural parcel will be the greater of: (i) its production value, or (ii) its acquisition value if acquired after January 1, 2002.

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1 **Definitions.** Defines pre-2007 and post-2007 debt service equalization revenue based on bond issues approved before or after the effective date of this bill.

2 **Debt service equalization revenue.** Defines the tiers for debt service equalization revenue separately for pre-2007 bond approvals and post-2007 bond approvals, using the same thresholds (15 percent and 25 percent) as under current law. Post-2007 equalization revenue is based on the new school capital net tax capacity defined in section 0.

3 **Equalized debt service levy.** Specifies that the tax base measure used in the school debt equalization aid formula for bond issues approved after June 30, 2007, is the school capital net tax capacity as defined in section 0. Equalization for both pre-2007 and post-2007 levies

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is based on the same equalizing factors as under current law.

4 **School capital net tax capacity.** Defines "school capital net tax capacity" as the net tax capacity of all property except agricultural land and buildings (but including the house, garage and one acre of an agricultural homestead).

5 **Adjusted school capital net tax capacity.** Defines "adjusted school capital net tax capacity" as the net tax capacity defined in section 0, adjusted by the sales ratio.

6 **Adjusted net tax capacity.** Provides that for purposes of determining a jurisdiction's adjusted net tax capacity (for state aid programs like LGA and various school aid/levy formulas), agricultural land valued under the provisions of this bill will be assumed to have a sales ratio of 100%.

7 **Determination of value; property under "Green Acres" classification.** Provides that for property enrolled in the "Green Acres" program, taxable value will be based on the production valuation system provided for in section 0, subd. 1, except that the taxable value will not be allowed to be less than the value in effect for taxes payable in 2009.

8 **Production value of agricultural land.**

Subdivision 1. State Board of Agricultural Land Valuation. Establishes a State Board of Agricultural Land Valuation consisting of the Commissioner of Agriculture, the Commissioner of Revenue, and the Dean of the University of Minnesota College of Agricultural, Food and Environmental Sciences, with the Commissioner of Revenue serving as chairperson of the board.

Subd. 2. Valuation system based on agricultural productivity. (a) Requires the Board to develop a system for valuing agricultural land throughout the state by January 1, 2009, based on the productive capacity of the land, agricultural commodity prices, and costs of inputs to agricultural production, factoring in a reasonable return on investment. States that the Board shall make use of currently available data and information that it deems valid to produce a valuation schedule that fairly values agricultural land throughout the state. Allows the Board to provide for the development of additional productivity measures that it deems necessary, either on a statewide basis or in certain areas of the state where existing data is deemed inadequate. Allows the Board to limit the application of the productivity valuation system to tillable land only, at its discretion.

(b) Stipulates that the valuation system is to be developed in consultation with county assessors, who will be responsible for implementing the system within their counties.

(c) Requires the Board to conduct at least four public hearings throughout the state after it has adopted a preliminary version of the system to educate the public about the system and to gather input about the valuation of agricultural property.

Subd. 3. Appropriation. Provides a blank appropriation for FY 2008 for the Board to carry out its work.

9 **Valuation of agricultural property.**

Subdivision 1. Production value. Provides that each year, the assessor shall assign a value to each parcel of agricultural land based on the production value system created

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in section 0. Requires the assessor to separately estimate the value of any structures and any lands not covered by the production value system and add those values to the production value.

Subd. 2. Acquisition value. Defines an agricultural property's acquisition value as the acquisition price of the property at the time of its most recent sale or transfer. Properties that have not been transferred since January 1, 2002, shall be considered to have an acquisition value of zero.

Subd. 3. Taxable value. Provides that the value of agricultural property for property tax purposes is the greater of its production value, or its acquisition value determined under subdivision 2.

10 **Tax rates.** Provides that levies against school capital net tax capacity shall be certified to the county auditor separately from other school district levies, and that a separate tax rate will be calculated.

11 **Determination of value; property under Metro Ag Preserves classification.** Provides that for property enrolled in the "Metro Ag Preserves" program, taxable value will be based on the production valuation system provided for in section 0, subd. 1.