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Yalosta Rickford
Operator's Signature

10/2/03
Date

2003 HOUSE FINANCE AND TAXATION

HB 1055

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1055

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date January 14, 2003

Tape Number	Side A	Side B	Meter #
1	X		0.4
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. WESLEY BELTER, CHAIRMAN Called the hearing to order.

SEN. RICH WARDNER, DIST. 37, DICKINSON Stated he was the chairman of the tax committee during the interium. This bill was studied throughout the interium. The change in the bill before you, was something that came to us right toward the end. Since October, other information has developed, so that maybe this bill is not needed. Capitalization simply deals with interest rates, and as interest rates go down, the formula kicks out higher dollars. He stated someone reminded them that they were forgetting about putting in a percentage for property taxes paid into the capitalization rate. The committee felt, this was a fairness issue, and that it should be there, because it is going to be a shift now, to the urban district. We changed the averaging from seven years to ten, we put production into the formula, over the last few years, so I thought this was the final thing. Now they tell me, it is already in the formula, somewhere else. If it is in the formula somewhere, this bill doesn't do anything, and it would be double dipping.

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House Finance and Taxation Committee

Bill/Resolution Number HB 1055

Hearing Date January 14, 2003

LARRY OSBORN, SUPERVISOR OF TAX & PROPERTY FOR RICHLAND COUNTY

Testified in support of the bill. See written testimony plus a table of calculations for 2003 assessments.

REP. BELTER Asked Mr. Osborn to review the numbers.

LARRY OSBORN If we are at 8.53% now, that would be about 26% increase, we would get there in about five years. That average is up to about five percent per year. This would offset that by about 3.6% for the first four years. Then do nothing the fifth year.

REP. SCHMIDT Reiterated, if we don't do anything, the land values could increase five percent for the next three years.

LARRY OSBORN For the next five years.

REP. SCHMIDT Stated they found out in the last study, that for the last ten years, the average agricultural land in North Dakota, went up 37% in value. This would add up to 52% increase in fourteen years?

LARRY OSBORN Stated, it is more like 57%.

REP. BELTER Asked what the average selling price for land was in Richland County.

LARRY OSBORN It has gone up slowly, about 2% per year, for some reason, the price is up 8% this year.

REP. BELTER Asked whether land taxes were going up faster with the formula then based on actual property evaluations.

LARRY OSBORN One of the things I noticed about the formula, we are supposed to be following productivity. I think we are, to some degree. One of the things that really played in here, is government payments. He referred to the table of calculations relating to government

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House Finance and Taxation Committee

Bill/Resolution Number HB 1055

Hearing Date January 14, 2003

payments. In 1995, we received 4.3 million dollars, by the year 2000, it grew to 52 million. That is something that happened in all of the counties in the red river valley. Even though the cropland value has dropped, the government payment value has picked that up, my average of 48.62, down below, is just about an even keel. I had \$47.00 in 1990 in government income. What changed is the capitalization rate, back in 1990, it was about 11.4%.

REP. KLEIN Asked whether he checked with the farm payments, he heard they were paying less.

LARRY OSBORN Related to a soils committee meeting in Richland County, to which nine farmers attended, representing townships, it was one of the things they brought up, that government payments were really dropping. What kind of effect that will have, is hard to tell. What will happen to the price of soybeans and corn.

REP. GIL HERBEL GRAFTON Testified in support of the bill. He stated, that when you look at evaluations, especially in his area, they have the problem of a study escalation in evaluations and the capitalization rate, plays a big role in how the evaluations change. During the interium, they had Dr. Eckre change the capitalization rate, and saw a greater significant change taking place in evaluations, versus any other part of the formula. If those government payments tend to drop, you are not going to see that change take place in evaluations. Now we are going to be caught with high evaluations, high taxes, and you take the government payments out of there, it will leave the farmer holding the bag. Capitalization rate, is the greatest factor in determining evaluation, we need to make some change to that, and I think, this is a very good change. In visiting with the County Commissioner this morning, in Walsh County, the evaluations have gone up 42% in the last ten years. The land is not selling for a 42% increase.

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House Finance and Taxation Committee

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Hearing Date January 14, 2003

DON SIEBERT, DIRECTOR OF TAX, WARD COUNTY Testified in support of the bill.

The county commissioners support this bill and feel the evaluations have increased significantly in Ward County, with another 8% to 10% this year. We are in the same position as Richland County, where taxes are not reflecting what is in the formula, like they should be.

MAC HALCROW, COUNTY COMMISSIONER, PEMBINA COUNTY, Testified in support of the bill. Submitted four handouts relating to charts on taxable value, tax increases, FEMA and hazard mitigation money. In reviewing the charts, he stated the formula has to be changed. The capitalization rate is the big enemy. He stated, the hardest part is telling these farmers that their taxes are going to go up another 10% each year. He felt that it was not fair that the state is dictating an increase, when the county feels it doesn't need the increase. He felt that it is not fair, that this system has been allowed to increase taxes since 1980. He related to the disaster funds showing on one of the charts. He stated, everytime there is a disaster, there is a local cost share. It is not fair. These people are being overburdened, there are record amounts of foreclosures. We have had three floods. The damage to the infrastructure in the county, is immense.

REP. BELTER Because the land values escalated in Pembina County, have you lowered your mills?

MAC HALCROW I get asked that question a lot. Since I have been county commissioner, we have lowered mills every year. That is four years in a row. There are a bunch of mills the citizens vote on. The only real control we would ever have, is stop escalating the evaluations.

MARK SITZ, FARMER, REPRESENTING THE NORTH DAKOTA FARMERS UNION

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House Finance and Taxation Committee

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Testified in support of the bill. He stated it has been a war in process with the property tax situation. When we talk about evaluations, the conversation usually comes to high evaluations and the escalations in those evaluations. There is a lot of concern about that. They feel that is the reason for the high property taxes. When we talk about a capitalization rate and how it affects evaluations, we recognize that the capitalization rate is the only thing that represents the inputs of ag producers. We feel that approving HB 1055, would be going in the right direction because it more accurately reflects what the situation really is.

REP. DROVDAL Talking about the evaluation, property taxes increase because the local entities need more money, no matter what the evaluation is. It is in that end dollar. Doesn't this, in reality, shift the burden from rural land to urban land?

MARK SITZ I would imagine, there are some that would come to that conclusion. What we are concerned about is the accuracy of what goes into the formula.

REP. DROVDAL Does the capitalization rate reflect values of city property?

MARK SITZ I think we are only talking about ag.

JOHN WALSTAD, STAFF OF LEGISLATIVE COUNCIL, ATTORNEY FOR THE INTERIUM TAX COMMITTEE. Gave a handout of interium committee, see attached copy. Also answered questions the committee had regarding the interium.

REP. WINRICH There is some question, according to Sen. Wardner, that this tax rate problem is addressed elsewhere in the formula.

JOHN WALSTAD That is sort of news to me. This came up at the final committee meeting. Mr. Osborn came to that meeting, stating that adding the effective tax rate to the cap rate, the committee thought it sounded like a good idea, and approved an amendment to a bill the

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House Finance and Taxation Committee

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committee already had under consideration. It was the final committee meeting, so we didn't have an opportunity to do an analysis of how that would work statewide, and what the actual numbers would be. So, I don't know the answer to your question.

MAC HALCROW Commented again, relating to Rep. Drovdal's question regarding whether urban land taxes would go up if ag land goes down, he stated, in his county, they did the work sheets, and that would not happen.

REP. FROELICH Addressed the county commissioners, wondering if they have ever questioned the accuracy of the formula NDSU uses.

MAC HALCROW He stated yes, one of the problem with that is you are providing information on crops that have not been harvested. The FSA has only gathered up preventive plant information in the last two years.

KEN YANTES, SECRETARY OF THE NORTH DAKOTA TOWNSHIP OFFICERS

ASSOCIATION. Testified in support of the information. He stated that in traveling around the state, he has listened to the township officers of this state. They are all very concerned with the capitalization rate.

MARCY DICKERSON, SUPERVISOR OF ASSESSMENTS, STATE TAX

DEPARTMENT. See written testimony.

SANDY CLARK, REPRESENTING THE NORTH DAKOTA FARM BUREAU Testified in opposition of the bill. See written testimony plus a pamphlet on North Dakota property tax relating to ag productivity formula.

With no further testimony, the hearing was closed.

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House Finance and Taxation Committee

Bill/Resolution Number HB 1055

Hearing Date January 14, 2003

COMMITTEE ACTION 1-14-03 Tape #2, Side A Meter 20.5

Discussion was held relating to "double dipping" some testimony stated they were charged property taxes, but it was already in the formula. Some of the discussion was under the impression if rural property taxes went down, then urban taxes would go up. Some of the committee members felt, they are probably trying to help somebody, but not helping anyone at all.

REP. KLEIN Made a motion for a **DO PASS**.

REP. SCHMIDT Second the motion. **MOTION FAILED**.

REP. CLARK Made a motion for a **DO NOT PASS**.

REP. IVERSON Second the motion. **MOTION CARRIED**

7 YES

6 NO

1 ABSENT

REP. CLARK Was given the floor assignment.

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10/2/03
Date

FISCAL NOTE
Requested by Legislative Council
12/16/2002

Bill/Resolution No.: HB 1055

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

If enacted, HB 1055 will have no fiscal effect. The amount a political subdivision may levy in dollars is determined by the provisions of NDCC 57-15-01.1. Changing the valuation of existing property does not change the dollar amount a political subdivision may levy.

Adding the effective tax rate to the capitalization rate will reduce the valuation of agricultural land and therefore shift some of the tax burden to other property. Residential, commercial, and centrally assessed property will assume a greater share of the taxes if agricultural values decrease, but the total amount of taxes levied will not change.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Yalonda Rickford
Operator's Signature

10/2/03
Date

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Name:	Kathryn Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	01/03/2003

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Date: 1-14-03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1055

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Motion Made By

Seconded By

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN	✓				
DROVDAL, VICE-CHAIR		✓			
CLARK		✓			
FROELICH	✓				
GROSZ		✓			
HEADLAND	✓				
IVERSON		✓			
KELSH		✓			
KLEIN	✓				
NICHOLAS	A				
SCHMIDT	✓				
WEILER		✓			
WIKENHEISER	✓				
WINRICH		✓			

Total (Yes)

No

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

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Date

Date: 1-14-03
Roll Call Vote #: 2

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1055

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Not Pass

Motion Made By

Rep. Clark

Seconded By

Rep. Iverson

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN		<input checked="" type="checkbox"/>			
DROVDAL, VICE-CHAIR	<input checked="" type="checkbox"/>				
CLARK	<input checked="" type="checkbox"/>				
FROELICH		<input checked="" type="checkbox"/>			
GROSZ	<input checked="" type="checkbox"/>				
HEADLAND		<input checked="" type="checkbox"/>			
IVERSON	<input checked="" type="checkbox"/>				
KELSH	<input checked="" type="checkbox"/>				
KLEIN		<input checked="" type="checkbox"/>			
NICHOLAS	<input checked="" type="checkbox"/>				
SCHMIDT		<input checked="" type="checkbox"/>			
WEILER	<input checked="" type="checkbox"/>				
WIKENHEISER		<input checked="" type="checkbox"/>			
WINRICH	<input checked="" type="checkbox"/>				

Total (Yes) 7 No 6

Absent 1

Floor Assignment

Rep. Clark

If the vote is on an amendment, briefly indicate intent:

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10/2/03

REPORT OF STANDING COMMITTEE (410)
January 14, 2003 3:43 p.m.

Module No: HR-06-0554
Carrier: Clark
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
HB 1055: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO
NOT PASS (7 YEAS, 6 NAYS, 1 ABSENT AND NOT VOTING). HB 1055 was placed
on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

HR-06-0554

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2003 TESTIMONY

HB 1055

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10/2/03
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Testimony of Larry Osborn
House Committee
HB 1055
January 14, 2003

Mr. Chairman, members of the Committee, I am Larry Osborn Supervisor of Tax & Property for Richland County.

I am the one who proposed adding the effective tax rate (ETR) to the State Interim Tax Committee on September 25th, 2002. Before proposing this I did do my homework. I asked Dwight Eckre at NDSU if he subtracted the ETR at any point in finding the net income. His answer was no. I also asked Chuck Krueger, former State Supervisor of Assessments if the ETR was in the formula. His answer was nothing was conclusive.

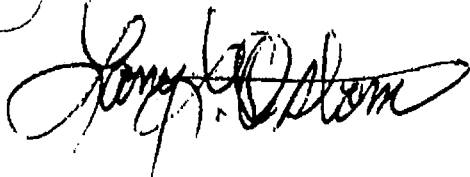
When Appraisers and Assessors attend schools to study the income approach. We are taught that the capitalization rate is a combination of first mortgage rate, recapture rate and effective tax rate. The recapture rate deals with the recapture of depreciation on improvements so is always zero when dealing with land only. The first mortgage rate is the rate you are now using. So my question is: where is the effective tax rate?

The taxes can be handled two ways. One is to subtract it from gross income in finding the net income. In that case it could not be added to the capitalization rate. The second way is to add the effective tax rate to the capitalization rate. It is important that we deal with taxes in one place or the other. We cannot add taxes to both the net income and capitalization rate. It's one or the other.

Since September people have been checking to see if anything is in the formula to account for taxes. The closest thing I've heard is Chuck Krueger says originally in looking at the landlords share it was a split of 66% vs 33%. But because of taxes and marketing the land lord share was lowered from 33% to 30%. On the last page of this report I have included a calculation sheet we receive each year from the state formula. Please look at the line for Landowner share of returns. And you can find the percentage being used for the different columns. Note that cropland and gov't payments are both at 30%. Then go below to find the line for eight year average landowner share of gross returns per acre. Note the average of \$48.62 per acre. If the average is about \$50 based on 30% this means the gross income has to be in the \$150 area per acre. And if they negotiated the percentage from 33 to 30 percent, this means that 3% times \$150 equals \$4.50 per acre. Now of the \$4.50 how much is marketing and how much is taxes?

The problem in my county is \$4.50 would not even cover the taxes alone. The average tax on farmland in Richland County is \$8.73 back in the year 2000! So either way I do believe we need to recognize the effective tax rate in law. If we don't do it now, it will keep coming up. Because no one is really sure how it is being handled, if handled at all.

Thank You



Richard County	Annual number of acres:	Calculations for 2003 assessments	Supplemental	MASS	Govt	CRP	Reported	Reported	Reported
		Year	& Policies	Cropland	Payments	Cropland	Non-cropland	Total	
Annual gross returns:		1982		728,700		36,810	111,200	808,510	
80% of returns on irrigated		1983		784,100		36,285	111,200	910,585	
cropland is included in		1984		784,800		36,285	111,200	901,585	
MASS cropland gross returns:		1985		728,900		36,285	111,200	878,385	
CRP returns are 80% of		1986		781,800		36,285	111,200	888,285	
payments reported by FIA		1987		736,800		22,702	111,200	869,302	
		1988		744,800		22,702	111,200	878,702	
		1989		748,000		22,702	111,200	882,902	
		2000		763,800		22,702	111,200	887,402	
		2001		788,100		22,702	111,200	900,002	
Annual gross returns:		1982		21,288,782		823,447	5,088,280	146,528,182	
80% of returns on irrigated		1983		22,732,781		831,828	5,420,086	158,918,428	
cropland is included in		1984		21,188,872		831,828	4,818,174	158,342,310	
MASS cropland gross returns:		1985		20,898,888		831,828	3,824,888	158,282,741	
CRP returns are 80% of		1986		25,181,400		831,828	3,124,086	166,828,283	
payments reported by FIA		1987		22,082,078		831,828	4,188,803	163,482,379	
		1988		18,887,880		831,828	4,387,877	167,921,408	
		1989		27,813,131		831,828	4,782,820	175,235,388	
		2000		23,148,705		831,828	5,448,887	188,847,046	
		2001		24,088,280		831,828	5,222,278	174,283,648	
Landowner share of returns				20.00%			26.00%	28.51%	
Annual landowner share		1982		4,257,756		164,699	1,308,800	42,183,808	
of gross returns		1983		4,618,224		164,699	1,388,017	42,013,587	
		1984		4,239,544		164,699	1,203,784	45,305,893	
		1985		4,179,888		164,699	881,242	48,115,384	
		1986		5,014,912		164,699	781,014	53,888,883	
		1987		4,530,864		164,699	1,048,401	47,018,882	
		1988		3,824,880		164,699	1,078,918	45,581,008	
		1989		4,618,224		164,699	1,180,733	48,989,283	
		2000		4,639,756		164,699	1,382,172	54,801,628	
		2001		4,818,174		164,699	1,308,800	50,187,616	
These 8 years of data were used in the following calculations:									
Eight-year annual average acre:									
Eight-year average annual landowner share of gross returns:									
Adjusted for cost of production index @									
Eight-year average landowner share of gross returns per acre:									
Capitalized average annual value per acre @									
Average provided or reviewed by county:									
Capitalized average value based on average provided or reviewed by county:									

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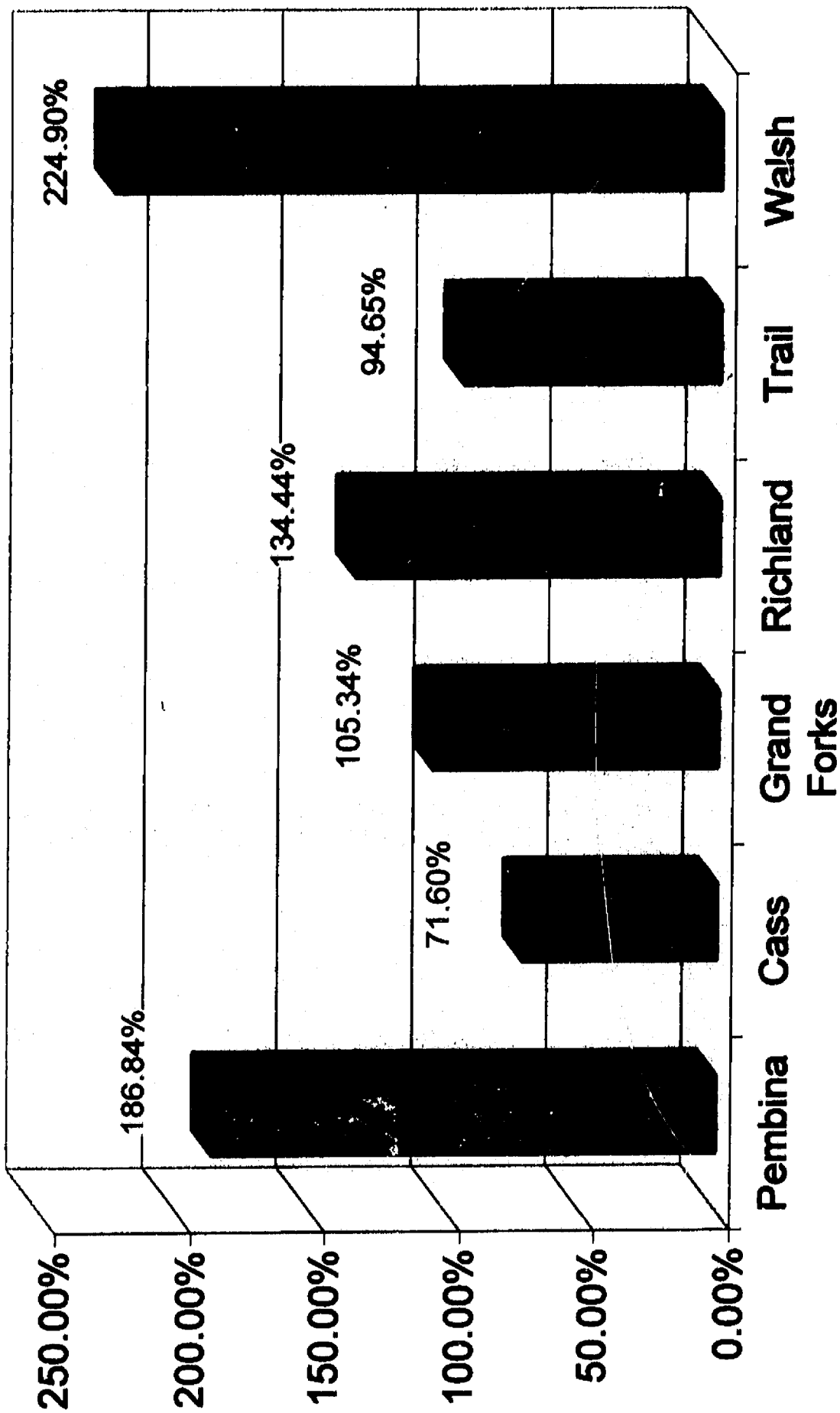
HB 1055

Mac Halcrow

PEMBINA COUNTY

- MAC HALCROW
- CHART ON TAXABLE VALUATION
- CHART ON TAX INCREASES
- CHART ON FEMA AND HAZARD MITIGATION MONEY
(ie: Disaster money from Federal, State, and Local)
- 36 FLOODS SINCE 1947 (including 3 last year)
- PRESIDENTIAL DISASTER COUNTY 10 TIMES IN LAST
11 YEARS
- US CONSTITUTION (Protect Lives, Protect Property, and
manage the monetary exchange)
- FAIRNESS DOCTRINE (10.04 Increase next yr 1-2003)
(\$543.73 - \$598.30)
Walsh 9.75%

Tax Dollar Increases 1980-2002

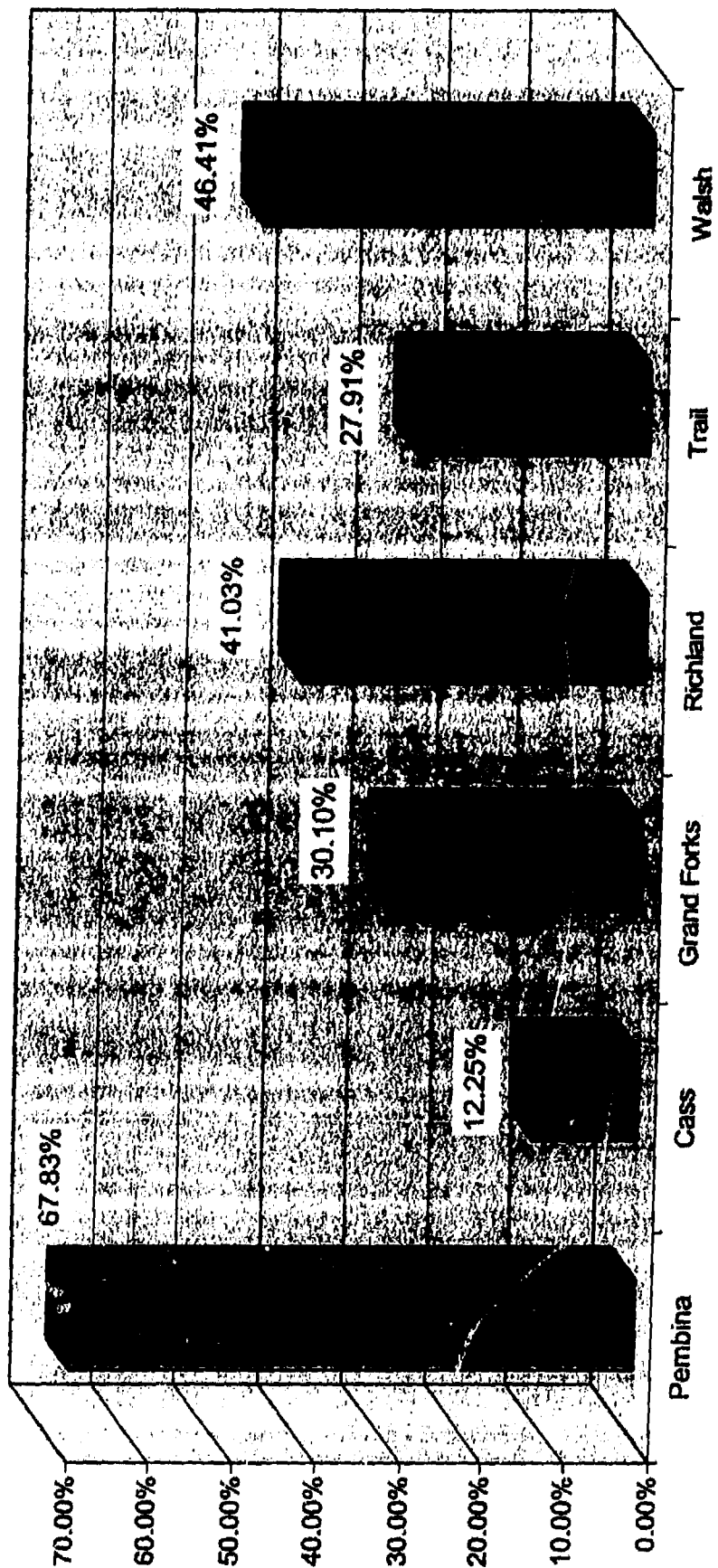


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10/2/03
Date

Taxable Valuation Increases 1980-2002

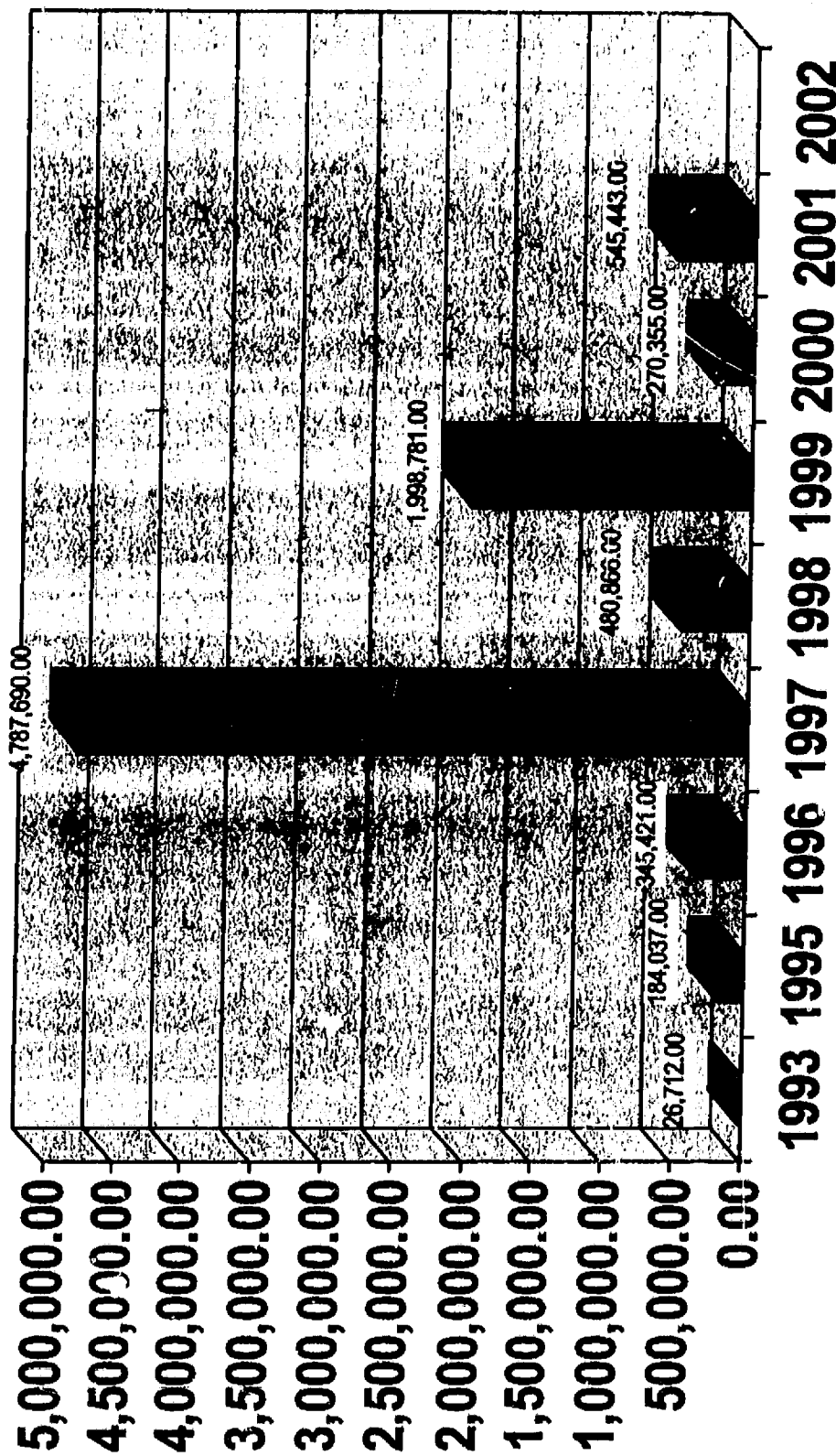


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PEMBINA COUNTY DISASTER ASSISTANCE



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10/2/03
Date

John Walstad NE 1055

law. The bill is intended to enhance the attractiveness of North Dakota's tax climate by reducing corporate income tax rates from the existing high of 10.5 to 6.84 percent. The fiscal effect of the bill is estimated to be a loss of \$700,000 in the first six months of 2003 and a loss of \$3.2 million for the 2003-05 biennium.

AGRICULTURAL PROPERTY ASSESSMENT STUDY

Background

In 1981 the Legislative Assembly restructured property tax assessments in the state and changed the basis for valuation of agricultural property to a formula based on the property's productivity value. True and full value of agricultural property for property tax purposes is based on productivity, as established through computation of the capitalized average annual gross return of the land as made by North Dakota State University Department of Agricultural Economics.

The Department of Agricultural Economics determines annual gross return for property based on the best statistical agricultural production information it can obtain. For minor production crops, such as lentils and field peas, production statistics are not available so values based on known crops are substituted. Canola was in this category until 2000, when the National Agricultural Statistics Service recognized the growth in canola production and began gathering production data. It is not believed that lack of data on minor crops has a substantial impact on countywide valuations.

Annual gross return for rented land is determined from crop share or cash rent data, and for other land, annual gross return is 30 percent of annual gross income for cropland used for growing crops other than sugar beets or potatoes, 20 percent of annual gross income for cropland used for growing sugar beets or potatoes, and 25 percent of annual gross income potential based on animal unit carrying capacity of the land for land used for grazing animals. Average annual gross return for each county is determined by using annual gross returns for the county for the 10 most recent years, discarding the highest and lowest annual gross returns from those years, and averaging the returns for the remaining eight years. Average annual gross return is indexed for inflation to reflect changes in prices paid by farmers. This cost of production factor is determined by the Department of Agricultural Economics by comparing National Agricultural Statistics Service indexes of prices paid by farmers over a period of 10 years, discarding the highest and lowest years' indexes, and averaging the remaining eight years' indexes. This amount is divided by the base year index of prices paid by farmers during the seven-year period ending in 1995.

Average annual gross return for agricultural property is capitalized using a 10-year average of the most recent 12-year period for the gross Farm Credit Services mortgage rate of interest.

An average agricultural value per acre is established for cropland and noncropland on a statewide and countywide basis. The Department of Agricultural Economics

provides this information to the Tax Commissioner by December 1 of each year, and the Tax Commissioner provides the information to each county director of tax equalization. The county director of tax equalization uses the countywide average received from the Tax Commissioner as the basis for determining and providing each assessor in the county with an estimate of the average agricultural value of agricultural lands within the assessor's district. The assessor uses the average valuation received from the county director of tax equalization to determine the value of each assessment parcel within that district. Within each county and assessment district, the average of values assigned to agricultural property must approximate the averages determined under the formula for the county or assigned to the district by the county director of tax equalization. In determining relative values of parcels of property, local assessment officials are to use soil type and soil classification data whenever possible.

Inundated agricultural land is an exception to the valuation formula. Inundated agricultural land is defined as agricultural property containing a minimum of 10 contiguous acres, if the value of the inundated land exceeds 10 percent of the average agricultural value of noncropland for the county, which is inundated to an extent making it unsuitable for growing crops or grazing farm animals for two consecutive growing seasons or more and which produced revenue from any source in the most recent prior year which is less than the county average revenue per acre for noncropland. Application for classification as inundated agricultural land must be made in writing to the township assessor or county director of tax equalization by March 31 of each year. Before all or part of a parcel of property may be classified as inundated agricultural land, the board of county commissioners must approve that classification for that property for the taxable year. The agricultural value of inundated agricultural lands must be determined by the Department of Agricultural Economics to be 10 percent of the average agricultural value of noncropland for the county as determined under the formula. Valuation of individual parcels of inundated agricultural land may recognize the probability that the property will be suitable for agricultural production as cropland or for grazing farm animals in the future.

Committee Consideration

The committee received a detailed review of the gathering of statistics and operation of the agricultural property valuation formula. Production statistics for the most recent 10 years are used in the formula and the high and low years are eliminated and the remaining eight years averaged. Gross revenue for cropland in each county is based on acreage yield per acre and price for each crop for the county. These statistics are gathered by the National Agricultural Statistics Service of the United States Department of Agriculture. Gross revenue from crop production is determined for each crop grown in the county by multiplying acreage times yield per acre to determine production, production is

multiplied times price to determine value of production for each crop in the county, acres for summer fallow and all crops are added, and values of production for all

s are totaled to determine county cropland production. Rangeland and pastureland is valued by estimating value of calves and cull cows produced per acre. These estimates are based on the livestock carrying capacity measured in animal unit months, which is assumed to be enough grazing capacity to support a 1,000-pound cow and her calf for one month. For purposes of these calculations, it is assumed that one-sixth of the cow herd is culled each year and a six-month grazing season is assumed. Production estimates based on weight gain are multiplied by the price reported by the North Dakota Agricultural Statistics Service to determine a cull cow income per animal unit month. Calf income is determined using a similar method and incorporating statistics on calf production per month and calf prices. Statistics are gathered and incorporated in county production statistics based on government program payments, exclusive of the conservation reserve program. Conservation reserve program payments are divided in half and the remaining amount is included as gross revenue for agricultural land.

The capitalization rate used in the formula has declined each year since 1994. It is estimated that the decline will continue for the foreseeable future and a decline in the capitalization rate produces increasing agricultural property valuations.

A representative of the Department of Agricultural Economics at North Dakota State University pointed out the issues that could be addressed to make the formula more accurate. Reducing conservation reserve program payments by 50 percent understates the income to the landowner of these payments. Crop insurance indemnity payments are not included in statistics used in the formula but have become a significant source of revenue to farmers. Valuation of noncropland assumes a grazing season of six months for all counties, but actual grazing season length varies from north to south and east to west. Total value of calves and cull cows sold is counted as revenue for noncropland, but winter feed for animals comes from cropland and is already included in cropland revenue calculations.

The committee reviewed statistics on agricultural property valuation for each county from 1982 through 2001. From 1982 through 1985 agricultural land valuations under the formula increased. From 1986 through 1992 valuations decreased. From 1993 through 2001 formula valuations have steadily increased with a statewide average valuation increase of more than 37 percent over eight years. Farmers in some parts of the state have expressed frustration with continuing increases in agricultural property valuation when they have observed disaster declarations because of flooding problems for several consecutive years, increased farm foreclosures, low market prices, and drought in some parts of the

The committee explored information on the status of soil surveys in North Dakota. A representative of the

United States Department of Agriculture Natural Resources Conservation Service said the intended soil survey cycle is to provide for resurveys for each county within each 30-year period. It was observed that resurveys should be completed more frequently but the Natural Resources Conservation Service is limited by budget and staffing restraints.

The committee explored a suggested change to using cash rent as the landlord's share of gross returns under the formula. It was suggested that cash rent would be a better measure than the current method of estimating production value. Cash rent information is gathered by the North Dakota Agricultural Statistics Service through surveys of 3,000 farm operators in North Dakota each year. Mail surveys are sent to farm operations and a telephone followup survey is conducted to check accuracy. The committee considered a bill draft that would have substituted cash rent as a basis for computations in the valuation formula. The committee makes no recommendation with respect to the bill draft. Committee members expressed concern that basing assessed valuations on unverified reports of operators is not a reliable method.

The committee explored the history and estimates for future changes in the capitalization rate used in the valuation formula. The committee considered but makes no recommendation with respect to bill drafts that would have established a floor on the capitalization rate and frozen agricultural property assessments. The Agribank annual mortgage rate, which is used as a basis for the capitalization rate under the formula, declined substantially to 6.48 percent for 2001. It is likely that in the next few years substantial decline in the capitalization rate will result in substantial increases in agricultural property valuation.

It was recommended by a local tax official that the agricultural property assessment formula be adjusted to add consideration of an effective tax rate for agricultural property. It was suggested that the agricultural property valuation formula does an adequate job of reflecting the productivity valuation of agricultural property, but the weakness in the capitalization rate used in the formula is that it does not reflect property tax payments by farmers and ranchers.

Recommendation

The committee recommends House Bill No. 1055 to incorporate an effective tax rate calculation in the capitalization rate used for valuation of agricultural property. It was estimated that the effective tax rate would be approximately 1.5 percent, which upon being added to the capitalization rate, would result in a statewide agricultural property valuation decrease of approximately 14 percent. The bill phases in the use of an effective tax rate over four years. The capitalization rate under the current formula is expected to decline, so it is anticipated that the addition of an effective tax rate will not cause substantial shifts in property tax burden among property types.

FINANCE AND TAXATION COMMITTEE

January 14, 2003

Testimony of Marcy Dickerson, State Supervisor of Assessments

HOUSE BILL NO. 1055

Mr. Chairman, Members of the Committee, for the record my name is Marcy Dickerson and I am employed by the State Tax Commissioner as State Supervisor of Assessments. My testimony concerns House Bill No. 1055.

This bill requires that the effective tax rate for all agricultural property in this state be added to the ten-year average of the gross agribank mortgage rate of interest for North Dakota to calculate the capitalization rate used in the agricultural property tax valuation formula. For the 2003 assessment the effective tax rate is to be multiplied by 25 percent before being added to the calculated agribank mortgage rate.

The effective tax rate for 2001 is 1.54 percent. Twenty-five percent of that is 0.385 percent. That is the amount to be added for the 2003 assessment. That addition would bring the 2003 capitalization rate to 8.92 percent (rounded). That would reduce average agricultural values per acre by about 4.4 percent. I say "about" because, when run through the whole agricultural valuation process, there would be a little difference due to rounding.

It is proper to include the effective property tax rate in the capitalization rate so long as property taxes have not been deducted prior to determination of income to be capitalized. If property taxes have already been accounted for, including an effective tax rate component in the capitalization rate would be double counting.

I have not found any written evidence of whether property taxes have been accounted for in the agricultural valuation formula. However, I have spoken with former State Supervisor of

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Yolanda Rickford
Operator's Signature

10/2/03
Date

HB 1055

Testimony of Marcy Dickerson

January 14, 2003

Page 2

Assessments Charles Krueger and corresponded with former State Supervisor of Assessments Barry Hasti. They both said that when the return to the land owner was reduced from 33 1/3 percent to 30 percent, that was to account for marketing and other expenses including property tax. If that is correct, including the effective tax rate in the capitalization rate would be double counting.

This concludes my prepared testimony. I will be happy to try to answer any questions you may have.

Yolanda Rickford
Operator's Signature

10/2/03
Date



State Headquarters:
1101 1st Ave N
PO Box 2064
Fargo, ND 58107
701-298-2200 • 1-800-367-9668

Government and Media Relations office:
4023 State St
PO Box 2793
Bismarck, ND 58502
701-224-0330 • 1-800-932-8869

North Dakota Farm Bureau

www.ndfb.org

Opposition

House Finance and Tax Committee

January 14, 2003

Testimony by North Dakota Farm Bureau

presented by Sandy Clark, public policy team

Good morning, Mr. Chairman and members of the committee. For the record, my name is Sandy Clark and I represent the 26,000 members of the North Dakota Farm Bureau. We appreciate the opportunity to appear before you this morning.

We realize the Interim Tax Committee worked hard to seek a method to give property tax relief to farmers and ranchers. NDFB also agrees that property taxes are too high.

However, NDFB must oppose HB 1055 for a couple reasons.

The effective tax rate gives property owners credit for having paid their property taxes. Farm Bureau is opposed to this bill because the property tax component is already in the current formula.

The Legislature previously gave credit for property taxes by changing the weighting factors from 33.5% to 30% for all crops and to 20% on high-value crops like sugarbeets and potatoes. It would be imprudent to add an effective tax rate to the capitalization rate, which would incorporate the same discount twice.

Furthermore, appraisers and assessors use this effective tax rate when utilizing the income procedure to determine full market value. The ag productivity formula was established in 1981 to replace the market value approach with a more realistic method based on hard facts through documented productivity data, rather than the many factors buyers will use to determine how much they will pay for a parcel of land.

It is dangerous to start incorporating a market value strategy into an ag productivity formula. The income approach used by appraisers and assessors to determine full market value is not the same as determining market value through the ag productivity formula. This is apples and oranges.

One future. One voice.

Sandy Clark
Operator's Signature

10/2/03
Date

An effective tax rate would indeed increase the capitalization rate; thereby, lowering land valuations. However, this is a market value component that has little connection to the philosophy of determining property taxes based on productivity.

We understand why there is interest in increasing the capitalization rate to lower land valuations. We also agree that property taxes for ag land are too high. However, any effort to arbitrarily manipulate the formula may solve a short-term situation, but it will definitely create additional problems in the future and will destroy the integrity of the formula.

Therefore, we encourage a no vote on HB 1055.

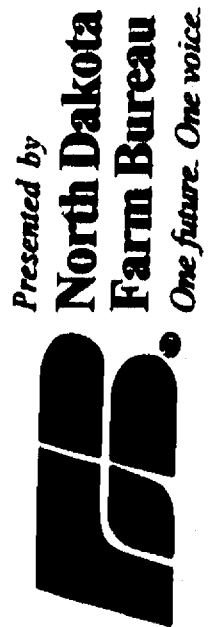
As you know, the ag productivity formula is very complex and complicated. We would like to distribute a book that Farm Bureau has prepared to explain the formula. It includes every step and every calculation of the formula. We simply distribute this for your use as a resource manual as you study the productivity formula. This is not great nighttime reading, but hopefully it will help answer some questions about how the formula operates.

Thank you and I would be happy to entertain any questions you may have.

HB 1055
Sandy Clark

North Dakota Property Tax Ag Productivity Formula

January, 2003



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Date 10/2/03

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Thank You

Dwight Aakre, Farm Management Specialist, NDSU Extension Service, for his assistance and cooperation in the production of this information.

• ND Tax Department for reviewing this presentation.

Sources of information and statistical data:

- Formula and its related statistics from Dwight Aakre, NDSU
- ND Ag Statistics Service • ND Legislative Council
- State Tax Commissioner • North Dakota Century Code

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History - Productivity Formula Established in 1981

Until 1981, ag property taxes were based on sales ratio and market value. The 1981 Legislative Assembly restructured property tax assessments in the state and changed the basis for valuation of agricultural property to a formula to determine its productive value. True and full value of agricultural property for property tax purposes is now based on productivity, as established through computation of the capitalized average annual gross return of the land as made by the NDSU Extension Agricultural Economics Department as required by North Dakota Century Code Section 57-02-27.2.

Glossary of Terms

Ad Valorem Tax: A tax based on the value of the property subject to tax. Property tax is an ad valorem tax.

Agricultural Productivity Formula: A formula used to establish the valuation and assessment of agricultural lands in the state of North Dakota.

Agricultural Property: Platted or unplatted lands used for raising agricultural crops or grazing farm animals, except lands platted and assessed as agricultural property prior to March 30, 1981, shall continue to be assessed as agricultural property until put to a use other than raising agricultural crops or grazing farm animals. The time limitations contained in this section may not be construed to prevent property that was assessed as other than agricultural property from being assessed as agricultural property if the property otherwise qualifies under this subsection. Property platted on or after March 30, 1981, is not agricultural property when any four of the following conditions exist:

- The land is platted by the owner.
- Public improvements including sewer, water, or streets are in place.
- Topsoil is removed or topography is disturbed to the extent that the property cannot be used to raise crops or graze farm animals.
- Property is zoned other than agricultural.
- Property has assumed an urban atmosphere because of adjacent residential or commercial development on three or more sides.
- The parcel is less than ten acres [4.05 hectares] and not contiguous to agricultural property.
- The property sells for more than four times the county average true and full agricultural value.

Assessed Valuation: Means fifty percent of the true and full value of property.

AUMs: One AUM is the carrying grazing capacity it takes to support a 1,000 pound cow and her calf for one month.

Capitalization: The average interest rate as reported by Agribank, St. Paul, MN

Capitalized Average Annual Gross Return: The value of agricultural land.

Cost of Production Index: This index is a reflection of prices paid by farmers for inputs and indexed for inflation. It is determined by NDSU by comparing Economic Research Service, USDA, indexes of prices paid by farmers over a period of ten years, with the high and low years dropped, and averaging the remaining eight years.

Equalization Process: Equalization is a method required by law to adjust assessments so that they are consistent. Local assessments are reviewed and equalized by the Township Board of Equalization on the second Monday in April. The Board of County Commissioners meets within the first ten days of June to equalize among assessment districts within the county. The State Board of Equalization has the responsibility to equalize among counties and assessment districts in a county and meets the second Tuesday in August.

Farmstead Exemption: Property exempt from property taxes, including farm residences, farm structures and improvements located on agricultural lands.

Inundated Agricultural Land: Property classified as agricultural property containing a minimum of ten contiguous acres if the value of the inundated land exceeds ten percent of the average agricultural value of noncropland for the county, which is inundated to an extent making it unsuitable for growing crops or grazing farm animals for two consecutive growing seasons or more, and which produced revenue from any source in the most recent prior year which is less than the county average revenue per acre for noncropland calculated by the agricultural economics department of the North Dakota state university.

Mill Levy: Local mill rates are established to meet the revenue needs of the taxing district. Each taxing district prepares a budget to determine the money needed to provide services. To determine the mill rate, the county auditor divides the total property taxes to be collected for each taxing district by the district's total taxable value.

Personal Property: Personal property is exempt in North Dakota.

Olympic Average: Used when establishing averages over a period of years, by dropping the high and low, and averaging the remaining years.

Taxable Valuation: Signifies the valuation remaining after deducting exemptions and making other reductions from the original assessed valuation, and is the valuation upon which the rate of levy finally is computed and against which the taxes finally are extended.

True and Full Value: The value determined by considering the earning or productive capacity, if any, the market value, if any, and all other matters that affect the actual value of the property to be assessed. This shall include, for purposes of arriving at the true and full value of property used for agricultural purposes, farm rentals, soil capability, soil productivity, and soils analysis. True and full value for residential and commercial property is market value, as established by the local assessor. True and full value of agricultural property is based on productivity as established through computation by NDSU of the capitalized average gross return of the land.

The Components -- The Input Data

Components of Ag Productivity Formula

Crop Production of Crops
Total Cropland Acres
CRP Payments
Government Payments
Irrigated Production
Cost of Production
Non-Cropland Production (livestock grazing)
Total Acres of Rangeland and Pastureland
Inundated Lands
Capitalization Rate (average interest rate)

Statistical Input Data

The data comes from the North Dakota Agricultural Statistics Service and the National Agricultural Statistics Service of USDA. It is acquired from the September surveys for small grains and December surveys for row crops that are submitted by farmers and ranchers, who are actively engaged in farming in North Dakota. If a large percentage of small grains are not harvested in September, a call back is done in October.

The data is scanned both by human and machine method to determine any gross inaccuracies. NDASS staff call producers if something appears inaccurate. FAS data is also cross referenced as a check. Except for the capitalization rate, ten years of data are utilized with the highs and lows dropped and the remaining eight years averaged.

As a result of the collection process and timing, a two-year time lapse occurs between the actual production year and the property tax year.

Cropland Module

Crops Included in the Module

Spring Wheat	Winter Wheat	Rye
Durum	Sunflower Non Oil	Sunflower Oil
Barley	Corn Silage	Corn Grain
Alfalfa Hay	Flaxseed	Oats
Other Hay	Soybeans	Canola
Sugar Beets	Potatoes	Dry Edible Beans
Irrigated Durum	Irrigated Spring Wheat	Irrigated Barley
Irrigated Potatoes	Irrigated Corn Grain	Irrigated Corn Silage
Summerfallow		

County Data to Estimate Gross Cropland Revenue

Acres for crops (that might be grown) and summerfallow (see above)
Yield per acre for crops (yield is based on harvested acres, but is divided by total county acres. Therefore, the revenue per acre is lower because of preventive planting and inundated lands.)
Prices for crops are adjusted for transportation

4
NORTH DAKOTA FARM BUREAU

Estimating Gross Return from Crop Production

- 1) Production of each crop = Acreage x Yield per Acre _____ Acreage is based on harvested acres of each crop.
- 2) Production Irrigated Land = Acreage x Yield per Acre = Total x .5
Irrigated Land: 50% of the annual gross income from irrigated cropland must be considered additional expense of production and may not be included in computation of the average agricultural value per acre for cropland for the county. (see #5 below for 15% net effect.)
- 3) Value of Production = Production x Price _____ Price is the district price, adjusted for transportation costs.
- 4) Landlord share for sugar beet & potato cropland revenues = _____
Value of Production x 0.2 (20% sugarbeet & potato revenues)
Sugarbeets & Potatoes: These high-value crops are weighted differently (20%) to reflect higher inputs, rent, crop share, etc.
- 5) Landlord share for other cropland revenues = _____
Value of Production x 0.3 (30% all other crop revenue)
All other crops based on 30% to reflect inputs, rent, crop share, etc. Irrigated cropland would be the 50% (#2) and then 30% (#5) for a net effect of 15%.
- 6) Cropland Revenue = Irrigated Revenue + Sugar Beet/Potato Revenue — (In the instance of irrigated potatoes, 100% of revenue is reduced by 50% (#2) and then 20% of that (#4) for a net effect of 10%)
+ Other Cropland Revenue
- 7) County Total Cropland Acreage = all crop acreage + CRP acres _____
+ summerfallow acres
This is based on all acres, whether harvested or not, but unharvested acres are included at zero and later divided by all total acres.
- 8) CRP Payments = CRP payments in county x .50 (50%) _____
CRP Payments: Data received from Farm Service Agency (FSA)
• Acres enrolled in CRP program, by county
• Payments for CRP, by county
• One half of the total CRP payments are entered as CRP gross revenue
- 9) Government Payments = All government payments x 0.3 (30%) _____
Government Payments: Data received from Farm Service Agency
• All government payments (except CRP) for commodities are included at 30% of gross revenue.
- 10) Landlord Share of Cropland Revenues = Cropland Revenue (#6)
+ CRP Payments (#8) + Government Payments (#9)

11) Data for the last ten years are collected for Landlord Share of Crop-land Revenues (#10), the high and low years are dropped, and the remaining eight are averaged.

Cost of Production Index

Cost of Production Index is a reflection of prices paid by farmers for inputs and indexed for inflation. It is determined by NDSU by comparing Economic Research Service, USDA, indexes of prices paid by farmers over a period of ten years, with high and low dropped, and averaging the remaining eight years.

12) Cost of Production Index = Avg 8-yr index* / Base Year Index**

Annual Index Example for 2003:

$$112 / 102 \text{ (base year)} = 1.098 \times 100 = 109.8$$

13) Adjusted Landlord Share of Cropland Revenues (includes cost of production) =
Landlord share of cropland revenues (#11)
Cost of Production Index (#12)

14) Landlord Share of Gross Return per Acre of Cropland =
Landlord Share of Annual Return per Acre Cropland Revenue (#13)
Total County Cropland Acres (#7)

** Base Year Index of Prices Paid by Farmers

** Base year index is a 7-year base from 1995-1999, with highs and lows dropped, and the remaining five years averaged.

Year	Index
1995	108
1994	106
1993	104
1992	101
1991	100
1990	99
1989	95
Olympic Average	102

Example:

$$112 / 102 \text{ (base year)} = 1.098 \times 100 = 109.8$$

(Net effect is reducing value of production by 9.8%)

* Annual Index of Prices 2003 Assessment

* The annual index of prices paid by farmers for the last 10 years, with high and low years dropped, are collected and the remaining eight are averaged.

Year	Index
2001	122
2000	118
1999	113
1998	113
1997	119
1996	115
1995	108
1994	106
1993	104
1992	101
1991	100
1990	99
Olympic Average	112

The next step includes computing the capitalized average annual gross return. See page 10.

Non-Cropland Module

Data Used in Non-Cropland Productivity Formula

Total rangeland acres in county Rangeland AUMs for county
Total pastureland acres in county Pastureland AUMs for county
Cull cow income per AUM
Calf income per AUM

Estimating Gross Return from Non-Crop Production

Estimating the value of native rangeland and pasture involves estimating the value of calves and cull cows produced per acre of those lands. These estimates are based on the livestock carrying capacity, measured in animal unit months (AUMs). One AUM is the grazing capacity it takes to support a 1,000 pound cow and her calf for one month.

The AUMs used in the formula were originally established by NRCS for each county (see *Appendix A, page 16.*)

Cull Cow Weight per AUM = 0.25 cwt per month of grazing season —

Cull Cow Income Calculations

- One sixth of the cow herd is culled each year
- Six month grazing season in assumed
- Production equals 1/6 of 1000 pounds or approximately 1.5 cwt per year or 0.25 cwt per month

Calf Production per AUM = 0.5275 cwt per month of grazing season —

Calf Income Calculations

- Production is adjusted for assumed calving rates and heifers held for re-placements. These rates were established during the original formula and have not changed.
- Assumed calf production for sale per cow is 316.5 pounds or 0.5275 cwt per month.

15) Value of Production per AUM =

(Calf production per month x calf price) +
(weight of cull cows per month x cull cow price)

2000 example:

\$40.00 (cow price per cwt) x 0.25 per cwt (cull cow wt) = \$10.00
+ \$98.60 (calf price per cwt) x 0.5275 per cwt (calf wt) = \$52.011
Total Value of Production per AUM = \$62.011/AUM

Value of Production per AUM

- Price is that reported by ND Agricultural Statistics Service. (See page 9)

Returns for Pastureland and Rangeland

- 16) Returns for Pastureland =
Returns per AUM x Pastureland AUM capacity x Pastureland acres
- 17) Returns for Rangeland =
Returns per AUM x Rangeland AUM capacity x Rangeland acres

18) Total County Non-Cropland Returns =
Return for Pastureland + Return for Rangeland

19) Landlord Share of Non-Cropland Revenues =
Total Non-Cropland Returns (#18) x .25

20) Data for the last ten years for Landlord Share of Non-Cropland Revenues (#19) are collected for total non-cropland returns, the high and low years are dropped, and the remaining eight are averaged.

Cost of Production Index

21) Cost of Production Index = Avg 8-yr index*
Base Year Index**

22) Adjusted Landlord Share of Non-Cropland Revenue (with cost index) =
Landlord share of non-cropland revenues (#20)
Annual index (#21)

23) Total Non-Cropland Acres = Pastureland Acres + Rangeland Acres

24) Landlord's Gross Return per Acre of Non-Cropland =
Non-Cropland Revenues (#22)
Non-Cropland Acres (#23)

Gross Annual Return for non-cropland used for livestock grazing is based on 25%

Cost of Production

Cost of Production Index is a reflection of prices paid by ranchers for inputs and indexed for inflation. Determined by NDSU by comparing National Agricultural Statistics indexes of prices paid.

** Base Year Index of Prices Paid by Farmers

** Base year index is a 7-year base from 1995-1999, with highs and lows dropped, and the remaining five years averaged.

Year	Index
1995	108
1994	106
1993	104
1992	101
1991	100
1990	99
1989	95
Olympic Average	102

* Annual Index of Prices 2003 Assessment

* The annual index of prices paid by farmers for the last 10 years, with high and low years dropped, are collected and the remaining eight are averaged.

Year	Index
2001	122
2000	118
1999	113
1998	113
1997	119
1996	115
1995	108
1994	106
1993	104
1992	101
1991	100
1990	99
Olympic Average	112

Example:
112 / 102 (base year) = 1.098 x 100 = 109.8
(Net effect is reducing value of production by 9.8%)

The next step includes computing the capitalized average annual gross return. See page 10.

Non-Cropland Example

In 1999, the Stark County value of production for non-cropland is as follows:

- Total rangeland in Stark County = 242,200 acres
Carrying capacity of 0.55 AUM per acre
 $242,200 \times 0.55 = 133,210$ AUMs from rangeland
- Total pastureland in Stark County = 28,720 acres
Carrying capacity of 0.60 AUM per acre
 $28,720 \times 0.60 = 17,232$ AUMs from pastureland
- Total value of production =
 $133,210 + 17,232 = 150,442$ AUMs \times \$55.248 per AUM = \$8,311,620
- Total acres of pastureland + rangeland = $242,200 + 28,720 = 270,920$ acres
- Total value of production per acre = $\$8,311,620 / 270,920$ acres = \$30.679
- Landowner's share of value of production = 25 percent \times \$30.679 = \$7.669 per acre

Livestock Prices Used in the Land Value Assessment Model

Year	Calves	Cull Cows
1990	\$99.47	\$49.91
1991	\$101.60	\$46.34
1992	\$54.28	\$45.26
1993	\$103.96	\$45.82
1994	\$93.57	\$41.05
1995	\$69.20	\$36.10
1996	\$54.10	\$30.80
1997	\$75.50	\$34.90
1998	\$77.90	\$35.50
1999	\$87.20	\$37.00
2000	\$98.60	\$40.00
2001	\$95.50	\$40.80

Sample does not include cost of production index

Capitalization Rate

The annual weighted average interest rate is used to capitalize the landland share of gross revenue. Interest rates are acquired from Agribank in St. Paul, utilizing the last 12 years with the high year and low year dropped, so the interest rate used in the formula is the average of the remaining ten years.

As interest rates decline, land valuations will increase. As interest rates increase, land valuations will decrease. Land valuations as reflected in this formula are simply utilized to determine property taxes.

The impact of capitalization rate is also reflected by the inclusion of cost of production into the formula. An NDSU Economist has indicated the effect of capitalization rate is lowered by 60% by the inclusion of cost of production into the formula.

Interest rates/interest costs are often one of the largest line items in a farm/ranch budget. Therefore, producers benefit more significantly from lower interest rates, (because of the impact it has on land and machinery interests, as well as operating loans) than on the negative impact higher interest rates have on the property tax ag productivity formula and higher land valuations.

Historic Capitalization Rates

1989	10.54%	1996	10.76%
1990	10.79%	1997	10.47%
1991	11.12%	1998	10.14%
1992	11.35%	1999	9.77%
1993	11.40%	2000	9.45%
1994	11.40%	2001	9.18%
1995	11.11%	2002	8.91%
		2003	8.53%

* The last 12 years are used in the formula with the high and low years dropped, so the rate used in the formula is the average of the ten remaining years.

Landlord return per acre is computed as follows

$$14) \text{ Landlord Share of Gross Return per Acre of Cropland} = \frac{\text{Landlord Share of Annual Return per Acre Cropland Revenue (\#13)}}{\text{Total County Acres (\#7)}}$$

$$24) \text{ Landlord's Share of Gross Return per Acre of Non-Cropland} = \frac{\text{Non-Cropland Revenues (\#22)}}{\text{Non-Cropland Acres (\#23)}}$$

$$25) \text{ Capitalized Cropland Land Value} = \frac{\text{Landlord's Share from Cropland (\#14)}}{\text{Capitalization Rate}}$$

$$26) \text{ Capitalized Non-Cropland Land Value} = \frac{\text{Landlord's Share from Cropland (\#24)}}{\text{Capitalization Rate}}$$

Inundated Lands Module

Inundated Land -- Exception to the Formula

- 10% of the average agricultural value of non-cropland for the county (see #24 for non-cropland formula). The non-cropland value is used for both cropland and non-cropland.
- Definition: Ag property with minimum of ten contiguous acres, if the value of the inundated land exceeds 10 percent of the average agricultural value of non-cropland for the county, which is inundated to the extent making it unsuitable for growing crops or grazing farm animals for two consecutive growing seasons or more and which produced revenue from any source in the most recent prior year which is less than the county average revenue per acre for non-cropland.
- Written application must be submitted to township assessor or county director of tax equalization by March 31 of each year.
- County Commissioners must approve application

27) Inundated Lands Return per Acre = $\frac{.1 (10\%) \times \text{Landlord's Share from Non-Cropland (\#24)}}{\text{Total Inundated Acres}}$

28) County directors of tax equalization provide total taxable acres for cropland, non-cropland and inundated acres (including all acres, whether they were planted or harvested)

29) County Cropland Capitalized Average Annual Gross Return = Capitalized cropland land value (#25) x county taxable cropland acres

30) County Non-Cropland Capitalized Average Annual Gross Return = Capitalized non-cropland land value (#26) x county taxable non-cropland acres

31) County Inundated Acres Average Annual Gross Return = Inundated land value (#27) x county taxable inundated acres

32) Avg All Land Value for County = $\frac{\text{Total county values}}{\text{Total taxable acres in county}}$

What Happens Next?

Tax Commissioner

The average agricultural value per acre is established for cropland and non-cropland on a statewide and countywide basis. The Department of Agriculture provides the information to the Tax Commissioner by December 1 of each year.

County Director of Tax Equalization & Soil Surveys

The Tax Commissioner provides the information to each county director of tax equalization. The county director of tax equalization uses the countywide average received from the Tax Commissioner as the basis for determining and providing each assessor in the county with an estimate of the average agricultural value of agricultural lands within the assessor's district.

The estimate must be based upon the average agricultural value for the county adjusted by the relative values of lands within each assessment district compared to the county average. In determining the relative value of lands for each assessment district compared to the county average, the county director of tax equalization, whenever possible, shall use soil type and soil classification data from detailed and general soil surveys. When such data cannot be used, the county director of tax equalization shall use whatever previous assessment data is best suited to the purpose. These estimates shall be provided to local assessors by February 1.

Local Assessor

The assessor uses the average valuation received from the county director of tax equalization to determine the value of each assessment parcel within that district. Within each county and assessment district, the average of values assigned to agricultural property must approximate the averages determined under the formula for the county or assigned to the district by the county director of tax equalization.

Property Tax Liability

- Assessed value is 50% of land value.
- Taxable value for ag property is 10%; residential is 9% and commercial is 10% of assessed value.
- Property taxes are due January 1. If paid by February 15, taxpayer entitled to 5% discount. Taxes are payable without penalty until March 1 (penalties accrue after March 15)

12

ND. NORTH DAKOTA FARM BUREAU

County Average May Vary +/- 5%

The county director of tax equalization will report the countywide average back to the State Board of Tax Equalization, which will verify that the county average does not vary more than +/- 5%.

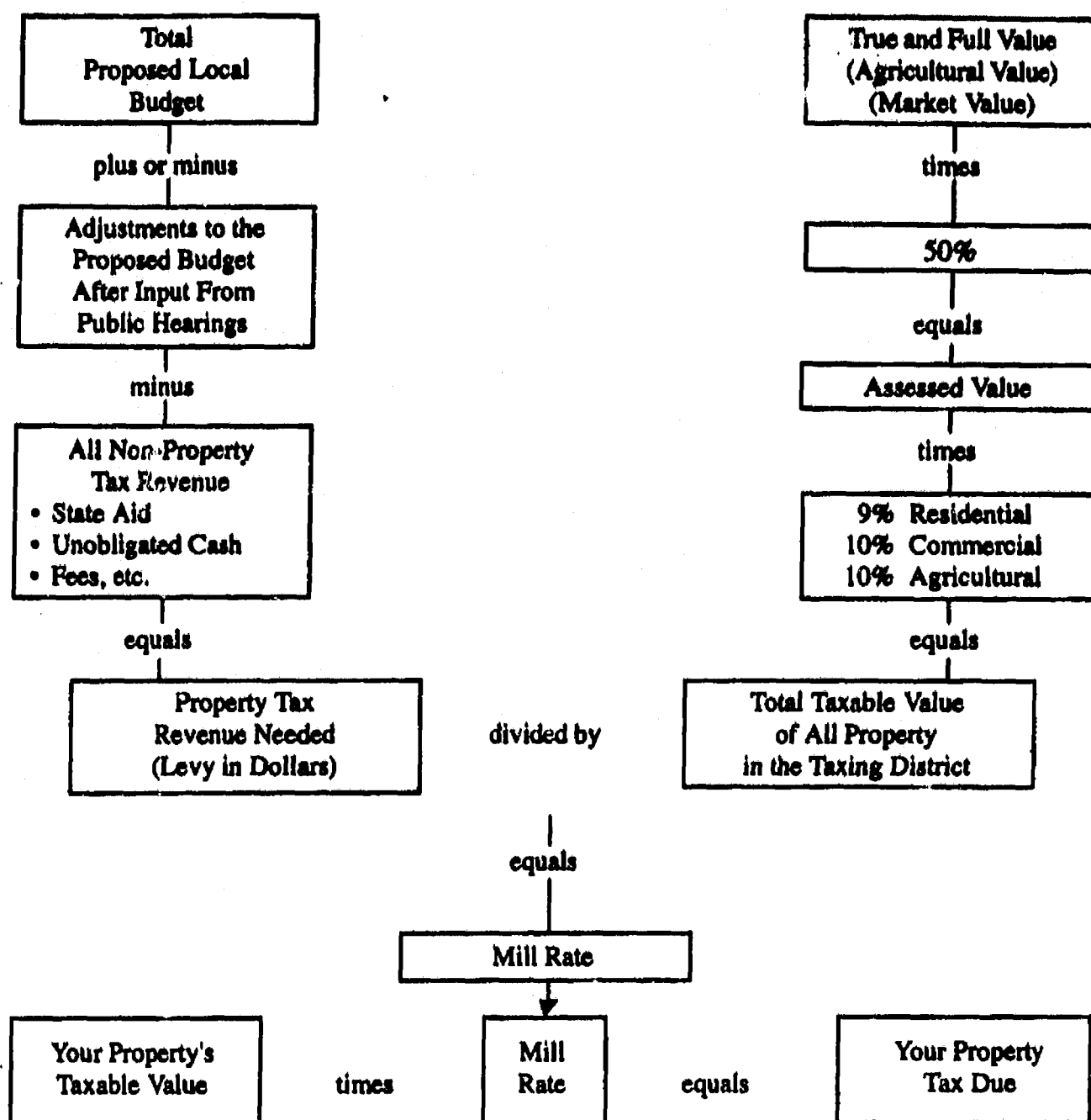
Assessed Value = Land Value x .5 (50%)

Taxable Value = Assessed Value x .10 (10%)

Property Tax Liability = Taxable Value x Mill Rate

North Dakota Property Tax System

NORTH DAKOTA FARM BUREAU



13

All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax. The other element of the property tax is the amount of revenue that needs to be raised.

(Source: "State and Local Taxes: An Overview and Comparative Guide 2000" distributed by North Dakota Tax Department)

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Valista Rickford
Operator's Signature

10/2/03
Date

Century Code -- 2001 -- Property Tax

57-02-27.1. Property to be valued at true and full value. Beginning with the year 1981, all assessors and boards of equalization shall place the values of all items of taxable property at the true and full value of the property except as otherwise specifically provided by law, and the amount of taxes that may be levied on such property for the year 1981 and each year thereafter must be limited as provided in this chapter. For the purposes of sections 57-02-27, 57-02-27.1, 57-02-27.2, and 57-55-04, the term "true and full value" has the same meaning as provided in subsection 15 of section 57-02-01, except that "true and full value" of agricultural lands must be as determined pursuant to section 57-02-27.2.

57-02-27.2. Valuation and assessment of agricultural lands.

1. "True and full value" of agricultural lands must be their agricultural value for the purposes of sections 57-02-27, 57-02-27.1, 57-02-27.2, and 57-55-04. Agricultural value is defined as the "capitalized average annual gross return", except for inundated agricultural land. The "annual gross return" must be determined from crop share rent, cash rent, or a combination thereof reduced by estimated property taxes and crop marketing expenses incurred by farmland owners renting their lands on a cash or crop share basis.

2. For purposes of this section, "annual gross return" for cropland used for growing crops other than sugar beets and potatoes means thirty percent of annual gross income produced, "annual gross return" for cropland used for growing sugar beets and potatoes means twenty percent of annual gross income produced, and "annual gross return" for land used for grazing farm animals means twenty-five percent of an amount determined by the agricultural economics department of North Dakota state university to represent the annual gross income potential of the land based upon the animal unit carrying capacity of the land.

3. The "average annual gross return" for each county must be determined as follows:

- For taxable year 1999, total the annual gross returns for the nine years immediately preceding the current year for which data is available and discard the highest and lowest annual gross returns of the nine. For taxable year 2000 and thereafter, total the annual gross returns for the ten years immediately preceding the current year for which data is available and discard the highest and lowest annual gross returns of the ten.
- The agricultural economics department of North Dakota state university shall establish a base year index of prices paid by farmers using annual statistics on that topic compiled by the national agricultural statistics service for the seven-year period ending in 1995, discarding the highest and lowest years' indexes, and averaging the remaining five years' indexes. For taxable year 1999, the agricultural economics department shall gather the national agricultural statistics service annual index of prices paid by farmers for the nine years ending with the most recent year used under subdivision a, discard the highest and lowest years' indexes, average the remaining seven

years' indexes, and divide the resulting amount by the base year index of prices paid by farmers. For taxable year 2000 and thereafter, the agricultural economics department shall gather the national agricultural statistics service annual index of prices paid by farmers for the ten years ending with the most recent year used under subdivision a, discard the highest and lowest years' indexes, average the remaining eight years' indexes, and divide the resulting amount by the base year index of prices paid by farmers. This amount must be divided into the amount determined under subdivision a.

c. For taxable year 1988, divide the figure arrived at in subdivision b by six. For taxable year 1989, divide the figure arrived at in subdivision b by seven. For taxable year 2000 and thereafter, divide the figure arrived at in subdivision b by eight.

4. To find the "capitalized average annual gross return", the average annual gross return must be capitalized by a rate that is a ten-year average of the gross federal land bank mortgage rate of interest for North Dakota. The ten-year average must be computed from the twelve years ending with the most recent year used under subdivision a of subsection 3, discarding the highest and lowest years, and the gross federal land bank mortgage rate of interest for each year must be determined in the manner provided in section 20-2032A-4(e)(1) of the United States treasury department regulations for valuing farm real property for federal estate tax purposes, except that the interest rate may not be adjusted as provided in paragraph (e)(2) of section 20-2032A-4.

5. The agricultural economics department of North Dakota state university shall compute annually an estimate of the average agricultural value per acre [.40 hectare] of agricultural lands on a statewide and on a countywide basis; shall compute the average agricultural value per acre [.40 hectare] for cropland, noncropland, and inundated agricultural land for each county; and shall provide the tax commissioner with this information by December first of each year. Fifty percent of the annual gross income from irrigated cropland must be considered additional expense of production and may not be included in computation of the average agricultural value per acre [.40 hectare] for cropland for the county as determined by the agricultural economics department. Before January first of each year, the tax commissioner shall provide to each county director of tax equalization these estimates of agricultural value for each county.

6. For purposes of this section, "inundated agricultural land" means property classified as agricultural property containing a minimum of ten contiguous acres if the value of the inundated land exceeds ten percent of the average agricultural value of noncropland for the county, which is inundated to an extent making it unsuitable for growing crops or grazing farm animals for two consecutive growing seasons or more, and which produced revenue from any source in the most recent prior year which is less than the county average revenue per acre for noncropland calculated by the agricultural economics department of the North Dakota state university. Application for classification as inundated agricultural land must be made in writing to the township assessor or county director of tax equalization by March thirty-first of each year, except that for the year 2001, the written application must be

made within ninety days from March 16, 2001. Before all or part of a parcel of property may be classified as inundated agricultural land, the board of county commissioners must approve that classification for that property for the taxable year. The agricultural value of inundated agricultural lands for purposes of this section must be determined by the agricultural economics department of North Dakota state university to be ten percent of the average agricultural value of noncropland for the county as determined under this section. Valuation of individual parcels of inundated agricultural land may recognize the probability that the property will be suitable for agricultural production as cropland or for grazing farm animals in the future.

7. Before February first of each year, the county director of tax equalization in each county shall provide to all assessors within the county an estimate of the average agricultural value of agricultural lands within each assessment district. The estimate must be based upon the average agricultural value for the county adjusted by the relative values of lands within each assessment district compared to the county average. In determining the relative value of lands for each assessment district compared to the county average, the county director of tax equalization, whenever possible, shall use soil type and soil classification data from detailed and general soil surveys. When such data cannot be used, the county director of tax equalization shall use whatever previous assessment data is best suited to the purpose.

8. Each local assessor shall determine the relative value of each assessment parcel within the assessor's jurisdiction and shall determine the agricultural value of each assessment parcel by adjusting the agricultural value estimate for the assessment district by the relative value of the parcel. Each parcel must then be assessed according to section 57-02-27. If either a local assessor or a township board of equalization develops an agricultural value for the lands in its assessment district differing substantially from the estimate provided by the county director of tax equalization, written evidence to support the change must be provided to the county director of tax equalization.

Appendix A -- Livestock Statistics

County	Range Acres	Pasture Acres	Total Acres	Range ALU	Pasture ALU
Adams	224,750	13,200	237,950	0.55	0.80
Barnes	43,400	24,300	67,700	0.75	0.80
Benson	47,000	70,000	117,000	0.65	0.70
Billings	215,000	3,420	218,420	0.55	0.80
Boftineau	50,800	9,640	60,440	0.65	0.70
Bowman	306,000	46,800	352,800	0.45	0.50
Burke	131,600	14,700	146,300	0.60	0.65
Burleigh	353,600	56,700	410,300	0.60	0.85
Cass	11,200	18,000	29,200	0.75	0.80
Cavalier	33,700	17,800	51,500	0.65	0.70
Dickey	82,100	38,900	121,000	0.75	0.80
Divide	172,300	5,600	177,900	0.60	0.65
Dunn	714,600	19,900	734,500	0.55	0.80
Eddy	23,200	44,200	67,400	0.65	0.70
Emmons	308,300	6,600	314,900	0.80	0.65
Forster	42,800	7,250	50,050	0.65	0.70
Golden Valley	282,900	17,800	300,700	0.45	0.50
Grand Forks	39,600	19,400	59,000	0.75	0.80
Grant	504,600	46,300	550,900	0.55	0.60
Groes	28,300	18,500	46,800	0.65	0.70
Hettinger	102,500	0	102,500	0.55	0.60
Kidder	265,600	92,640	358,240	0.60	0.65
Lakota	5,250	28,640	33,890	0.75	0.80
Logan	216,800	23,000	239,800	0.60	0.65
McHenry	348,800	27,300	376,100	0.65	0.70
McIntosh	162,500	4,650	167,150	0.60	0.65
McKenzie	595,200	46,800	642,000	0.55	0.60
McLean	286,226	19,000	315,226	0.60	0.65
Mercer	285,686	6,500	302,286	0.55	0.60
Morton	561,130	28,300	589,430	0.55	0.60
Mountrail	522,200	7,900	530,100	0.80	0.65
Nelson	50,700	24,100	74,800	0.65	0.70
Oliver	194,100	17,000	211,100	0.55	0.60
Pembina	960	22,500	23,460	0.75	0.80
Pierce	118,600	9,600	128,200	0.65	0.70
Ramsay	12,100	28,000	40,100	0.65	0.70
Ransom	40,500	4,050	44,550	0.75	0.80
Renville	41,200	5,250	46,450	0.65	0.70
Richland	55,000	56,200	111,200	0.75	0.80
Rolette	57,700	22,200	79,900	0.65	0.70
Sargent	41,500	37,600	79,100	0.75	0.80
Sheridan	214,000	5,700	219,700	0.60	0.65
Sioux	475,000	28,850	503,850	0.55	0.60
Slope	261,000	21,300	282,300	0.55	0.60
Stark	242,200	28,720	270,920	0.55	0.60
Steele	11,300	17,720	29,020	0.65	0.70
Stutsman	275,000	43,300	318,300	0.75	0.80
Towner	7,300	14,200	21,500	0.65	0.70
Trail	15,900	14,400	30,300	0.75	0.80
Walsh	22,000	8,600	30,600	0.65	0.70
Ward	251,400	3,665	255,065	0.60	0.65
Wells	56,400	13,600	70,000	0.65	0.70
Williams	375,000	19,000	394,000	0.60	0.65
State	9,800,302	1,229,375	11,029,677		

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Talister Rickford
Operator's Signature

10/2/03
Date

Century Code -- 2001 Farmstead Exemption

57-02-06. Property exempt from taxation. All property described in this section to the extent herein limited shall be exempt from taxation:

15. a. All farm structures and improvements located on agricultural lands.

(1) This subsection must be construed to exempt farm buildings and improvements only, and may not be construed to exempt from taxation industrial plants, or structures of any kind not used or intended for use as a part of a farm plant, or as a farm residence.

(2) Any structure or improvement used primarily in connection with a retail or wholesale business other than farming, any structure or improvement located on platted land within the corporate limits of a city, or any structure or improvement located on railroad operating property subject to assessment under chapter 57-05 is not exempt under this subsection. For purposes of this paragraph, "business other than farming" includes processing to produce a value-added physical or chemical change in an agricultural commodity beyond the ordinary handling of that commodity by a farmer prior to sale.

(3) The following factors may not be considered in application of the exemption under this subsection:

- (a) Whether the farmer grows or purchases feed for animals raised off the farm.
- (b) Whether animals being raised on the farm are owned by the farmer.
- (c) Whether the farm's replacement animals are produced on the farm.
- (d) Whether the farmer is engaged in contract feeding of animals on the farm.

b. It is the intent of the legislative assembly that this exemption as applied to a residence must be strictly construed and interpreted to exempt only a residence that is situated on a farm and which is occupied or used by a person who is a farmer and that the exemption may not be applied to property which is occupied or used by a person who is not a farmer. For purposes of this subdivision:

(1) "Farm" means a single tract or contiguous tracts of agricultural land containing a minimum of ten acres [4.05 hectares] and for which the farmer, actually farming the land or engaged in the raising of livestock or other similar operations normally associated with farming and ranching, has received annual net income from farming activities which is fifty percent or more of annual net income, including net income of a spouse if married, during any of the three preceding calendar years.

(2) "Farmer" means an individual who normally devotes the major portion of time to the activities of producing products of the soil, poultry, livestock, or dairy farming in such products' unmanufactured state and has received annual net income from farming activities which is fifty percent or more of annual net income.

including net income of a spouse if married, during any of the three preceding calendar years. "Farmer" includes a "retired farmer" who is retired because of illness or age and who at the time of retirement owned and occupied as a farmer the residence in which the person lives and for which the exemption is claimed. "Farmer" includes a "beginning farmer" who has begun occupancy and operation of a farm within the three preceding calendar years; who normally devotes the major portion of time to the activities of producing products of the soil, poultry, livestock, or dairy farming in such products' unmanufactured state; and who does not have a history of farm income from farm operation for each of the three preceding calendar years.

(3) "Net income from farming activities" means taxable income from those activities as computed for income tax purposes pursuant to chapter 57-38 adjusted to include the following:

- (a) The difference between gross sales price less expenses of sale and the amount reported for sales of agricultural products for which the farmer reported a capital gain.
- (b) Interest expenses from farming activities which have been deducted in computing taxable income.
- (c) Depreciation expenses from farming activities which have been deducted in computing taxable income.

(4) When exemption is claimed under this subdivision for a residence, the assessor may require that the occupant of the residence who it is claimed is a farmer provide to the assessor for the year or years specified by the assessor a written statement in which it is stated that fifty percent or more of the net income of that occupant, and spouse if married and both spouses occupy the residence, was, or was not, net income from farming activities.

(5) In addition to any of the provisions of this subsection or any other provision of law, a residence situated on agricultural land is not exempt for the year if it is occupied by an individual engaged in farming who had nonfarm income, including that of a spouse if married, of more than forty thousand dollars during each of the three preceding calendar years. This paragraph does not apply to a retired farmer or a beginning farmer as defined in paragraph 2.

(6) For purposes of this section, "livestock" includes "nontraditional livestock" as defined in section 36-01-00.1.

(7) A farmer operating a bed and breakfast facility in the farm residence occupied by that farmer is entitled to the exemption under this section for that residence if the farmer and the residence would qualify for exemption under this section except for the use of the residence as a bed and breakfast facility.