

HOUSE BILL REPORT

ESHB 2871

As Passed Legislature

Title: An act relating to current use valuation.

Brief Description: Creating a system of classifying land as agricultural land with long-term commercial significance for tax purposes.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Parlette, Chandler, Wensman, Anderson, Reams, Clements, Romero, Linville, Gardner and Thompson).

Brief History:

Committee Activity:

Finance: 2/5/98, 2/9/98 [DPS].

Floor Activity:

Passed House: 2/17/98, 96-0.

Passed Legislature.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives B. Thomas, Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Conway; Kastama; Mason; Morris; Schoesler; Thompson and Van Luven.

Minority Report: Without recommendation. Signed by 3 members: Representatives Carrell, Vice Chairman; Boldt and Pennington.

Staff: Rick Peterson (786-7150).

Background: The Growth Management Act (GMA) requires certain cities and counties to develop comprehensive plans. As part of this process they must designate appropriate lands as agricultural land that are not already characterized by urban growth and have long-term significance for the commercial production of food or other agricultural products. In addition, cities and counties are required to adopt development regulations to conserve these lands.

Property meeting certain conditions may have property taxes determined on current use values rather than market values. There are five categories of lands that may be classified and assessed on current use. Three categories are covered in the open space law: open space lands; farm and agriculture lands; and timber lands. The two remaining categories are in the timber tax law: classified and designated forest land.

Land eligible for current use taxation as farm and agricultural land is land:

- A. Devoted primarily to commercial agricultural purposes that is:
 - 1. Greater than 20 acres;
 - 2. Less than 20 acres and greater than five acres and produces gross farm income greater than \$200 per acre for three of five years;
 - 3. Less than five acres and produces \$1,500 in farm gross income for three of five years; or

- B. Designated as agricultural lands of long term commercial significance under the Growth Management Act (GMA) ; or

- C. Zoned as agricultural land under GMA and is not within an urban growth area.

Applications for farm and agricultural classification are made to the county assessor. A denial by the assessor can be appealed to the County Board of Equalization.

The land remains in the farm and agricultural current use classification as long as it continues to meet the criteria for classification. Land is removed from the program at the request of the owner; by sale or transfer to an ownership making the land exempt from property tax; or by sale or transfer of the land to a new owner, unless the new owner signs a notice of classification continuance. The assessor may also remove land from the program if the land no longer meets the criteria for classification.

When property is removed from farm and agricultural classification, back taxes, plus interest, must be paid. Back taxes represent the tax benefit received over the most recent seven years plus interest. In some cases an additional penalty of 20 percent of the back taxes is also imposed. There are some exceptions to the requirement for payment of back taxes.

Transfers without payment of back taxes can be made between all categories of current use valuation except for transfers out of open space. However, land classified as farm and agricultural conservation land within open space may be transferred to the farm and agricultural land category.

Summary of Bill: A new current use program is created for land designated as agricultural lands of long-term commercial significance by counties and cities planning under the Growth Management Act. To qualify, the land must be devoted primarily to

agricultural uses and not used for residential, industrial, or other commercial purposes. Also, the city or county must have adopted development regulations required under GMA to conserve the agricultural land.

The assessor is instructed to automatically classify all qualified agricultural land into the new current use program. Land in the existing open space farm and agricultural land program that qualifies for the new program shall be reclassified into the new program without payment of back taxes. The current use value is determined in the same manner as the existing open space program for farm and agricultural land.

Land is removed from the current use program if county or city removes the designation as agricultural land of long-term commercial significance or the use of the land is changed to a use not permitted for designation as agricultural land for long-term commercial significance.

There is no recovery of the tax benefit enjoyed by the property when it is removed from the program. Except that when land that was reclassified into the new program from the existing open space farm and agricultural land program is removed a portion of the back taxes may become due. For each year the land is in the new program one year of back taxes from the old program is abated.

Land removed from the agricultural lands of long-term commercial significance current use program may be reclassified into the open space farm and agricultural land current use program without payment of back taxes.

Language is removed from current law that qualifies all land within an agricultural zone located outside an urban growth area for current use valuation.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The counties are required by the Growth Management Act to designate and conserve these agricultural lands. This is a fairness issue: the land owners didn't asked to be zoned agricultural lands of long term significance but now they have their future options limited. The lands are already producing agricultural products. Counties will not designate lands that are in an area expected to be urbanized. The special property tax value is the same as the current open space program for farm and agricultural lands. This bill will make dealing with these GMA requirements more acceptable. Changes made last year to the farm and agricultural current use program need to be corrected.

Testimony Against: None.

Testified: Representative Parlette, sponsor; and Fred Saeger, Washington Association of County Officials (concerns).