

# HOUSE BILL REPORT

## ESHB 2502

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### As Passed Legislature

**Title:** An act relating to modifying exceptions to the compensating tax provisions for removal from forest land classification to more closely parallel open space property tax provisions.

**Brief Description:** Modifying exceptions to the compensating tax provisions for removal from forest land classification to more closely parallel open space property tax provisions.

**Sponsors:** House Committee on Ways & Means (originally sponsored by Representatives Hansen and Appleton).

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 1/24/12, 2/6/12 [DPS].

##### **Floor Activity:**

Passed House: 2/10/12, 95-1.

Passed Senate: 3/2/12, 48-0.

Passed Legislature.

#### **Brief Summary of Engrossed Substitute Bill**

- Extends the exception for payment of back taxes on designated forest land sold or transferred for the purpose of conserving open space land to include Kitsap and Thurston counties.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

**Staff:** Jeff Olsen (786-7175).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### Property Taxes.

Property taxes are imposed by state and local governments. The county assessor determines the assessed value for each property. The county assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located.

### Current Use Programs.

Property that meets certain conditions may have property taxes determined on current use values rather than market values. There are four categories of lands that may be classified and assessed on current use. Three categories are covered in the Open Space Taxation Act (Act): open space lands, farm and agriculture lands, and timber lands. The fourth category, designated forest land, is in chapter 84.33 RCW, timber and forest lands.

### Compensating Taxes.

When land is designated as forest land it is generally assessed at a lower value resulting in lower taxes. When land is removed from designation as forest land, back taxes must be paid, unless certain exceptions are met. The amount of the back tax owed for designated forest land is specified by formula and is equal to the tax benefit in the most recent year multiplied by the number of years in the current use classification, but not more than nine.

### Exceptions to the Payment of Compensating Taxes.

The compensating tax is not imposed if the removal is from one of the following actions:

- land is transferred to a government entity in exchange for other forest land within Washington;
- land is transferred to an entity using the power of eminent domain;
- land is sold or transferred to a governmental entity or nonprofit nature conservancy corporation. (The sale of land for conservation purposes must be exclusively for the protection of land which has been recommended for state natural area preserve purposes by the Natural Heritage Council, or approved by the Department of Natural Resources for state natural resources conservation area purposes;)
- land is sold to the Parks and Recreation Commission for park purposes;
- the present use of the land is disallowed because of an official action by an agency of the state or local government;
- the creation, sale, or transfer of forestry riparian easements or conservation easements;
- the sale of land within two years after the death of the owner of at least a 50 percent interest in the land if the land has been designated continuously since 1993; and
- removal of the land because it was classified in error.

Additionally, in counties with populations greater than 600,000, an exception to the payment of back taxes is allowed for a sale or transfer to a governmental entity, nonprofit historic preservation, or nonprofit nature conservancy corporation for the purpose of conserving open space. This exception is similar to the third exception above for acquisition of conservation

property, but contains a broader exception, similar to the exception in the open space classification.

**Summary of Engrossed Substitute Bill:**

The exception for the payment of back taxes on designated forest land when the transfer of property interests is for public use and enjoyment in a county with a population of more than 600,000 inhabitants is changed to include transfers in a county with a population of at least 245,000 inhabitants that borders Puget Sound. In addition, the exception for removals of land that has been transferred from designated forest land to open space and then removed from the open space classification under one of the authorized exceptions is expanded from a county with a population of more than 600,000 inhabitants to a county with a population of at least 245,000 inhabitants that borders Puget Sound.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The purpose of the bill is to address inconsistencies between the open space land and the designated forest land exceptions for the payment of compensating taxes. Exceptions include things that happen to a landowner, such as the taking of the land through eminent domain, or if the transfer of land is for a useful purpose, such as transferring the land to a church. The exceptions have changed over time, and are not the same for each category of land. The harmonizing of the compensating tax between the open space and the designated forest land would help bring some consistency to the current use program. There have been problems in the past with the interpretation of the language by the Department of Revenue, and it would be helpful to get their interpretation of the changes. Consistency among the counties in implementing the program would also be useful.

A project in Kitsap County involving 7,000 acres would benefit from the changes in the proposed bill. This is an important economic tool to encourage economic development.

(Opposed) None.

**Persons Testifying:** Representative Hansen, prime sponsor; John Ehrenreich, Washington Forest Protection Association; Bill Robinson, The Nature Conservancy; Tom McBride, Kitsap County; and Leda Chahim, Forterra.

**Persons Signed In To Testify But Not Testifying:** None.