

HOUSE BILL REPORT

HB 1437

As Reported by House Committee On:
Agriculture & Natural Resources
Finance

Title: An act relating to small farms under the current use property tax program for farm and agricultural lands.

Brief Description: Concerning small farms under the current use property tax program for farm and agricultural lands.

Sponsors: Representatives Reykdal, Blake, Haigh, Orcutt, Lytton, Van De Wege and Zeiger.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 2/6/13, 2/14/13 [DPS];

Finance: 2/26/13, 2/28/13 [DP2S(w/o sub AGNR)].

Brief Summary of Second Substitute Bill

- Establishes a pilot program in Thurston County under the current use program for home sites on qualifying farms under 20 acres.
- Directs the Joint Legislative Audit and Review Committee to provide a report to the Legislature regarding the effectiveness of the pilot program by December 1, 2018.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Blake, Chair; Lytton, Vice Chair; Dunshee, Haigh, Hurst, Pettigrew, Stanford and Van De Wege.

Minority Report: Do not pass. Signed by 7 members: Representatives Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Buys, Kretz, Orcutt, Schmick and Warnick.

Staff: Cherlyn Walden (786-7296).

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:

The Open Space Taxation Act allows for current use valuations of qualifying agricultural land, which includes:

- parcels 20 acres and larger devoted primarily to agricultural production;
- parcels five to 20 acres that generate gross income from the sale of farm products \$200 or more per acre in three of each five-year period; or
- parcels that are less than five acres that generate a gross income of at least \$1,500 per year in three of each five-year period.

A parcel or contiguous parcels classified as farm and agricultural land in the current use program must be 20 acres or more to receive a reduction in the taxable value of the home site. The housing or residence must be on or contiguous to the current use parcel(s) and integral to the use of the classified land for agricultural purposes. For parcels under 20 acres, the land where the housing is situated is valued at fair market value, while the remainder of the parcel is valued at current use.

Summary of Substitute Bill:

The home-site of agricultural and farm lands at least five acres up to 20 acres is eligible for current use valuation as long as the land underlying the residential structure is contiguous or on and integral to the farming operation of the current use classified agricultural and farm land. Farms less than five acres may also be eligible for current use valuation on the home-site, but a gross income of \$10,000 in three of the last five years before application is required in addition to the home-site being contiguous or on and integral to the farming operation.

The Department of Revenue must develop guidance, in consultation with stakeholders, on how the eligibility requirements for current use valuation to the home-site that is contiguous or on and integral to current use classified agricultural lands will be interpreted.

Substitute Bill Compared to Original Bill:

The substitute bill:

- extends eligibility for current use valuation to the land underlying the residential structure that is contiguous or on and integral to current use classified agricultural land at least five acres up to 20 acres;
- requires current use classified agricultural land less than five acres to also meet a gross income requirement of \$10,000 in three of the last five years before application in order to be eligible for current use valuation to the land underlying the residential structure;
- removes the exclusion of tidelands whose sole agricultural activity is aquaculture from eligibility; and
- directs the Department of Revenue to develop guidance, in consultation with stakeholders, on the eligibility requirements for current use valuation to the land

underlying the residential structure that is contiguous or on and integral to current use classified agricultural lands.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 14, 2013.

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

Staff Summary of Public Testimony:

(In support) Smaller farms are the fastest growing sector of farming, and this growth has been reflected in Thurston County. Small farms are participating in programs that provide fresh produce to local schools and food banks, as well as provide local, sustainable food to the community. The biggest challenge to farming is financial. The Legislature has prioritized preserving farm land in the state, but if farms cannot stay in business, then it is in vain. Allowing smaller farms to be eligible for the home site current use valuation is about fairness. Farms under 20 acres should not be treated differently than those 20 acres and larger. Small farms benefit their communities, and one acre of land being taxed at fair market value is a huge burden that is better distributed to the taxing district. Tax shifts happen all of the time. Passing this bill will go a long way to show our small farmers how much we appreciate their work.

(With concerns) Growth management is supposed to support farming. A tax shift puts rural and urban counties at odds with each other. Without additional requirements in place, there may be unintended consequences of home sites being eligible for current use that are not meant to benefit from this bill. Aquaculture should not be categorically excluded from eligibility the home site exemption.

(Opposed) None.

Persons Testifying: (In support) Representative Reykdal, prime sponsor; Leslie Cushman; Nancy Laich; Sandra Romeno, Thurston County Commission; David Muehleisen; Loretta Seppanen, South Sound Community Farm Land Trust; Julie Puhich, Common Ground Farm; Holli Johnson, Washington State Grange; Josh Giuntoli, Washington State Conservation Commission; Jim Groche, Friendly Grove Farms; Tom Davis, Washington Farm Bureau; E.J. Zita, Thurston County Agriculture Advisory Board; and Diane Grace.

(With concerns) Steven Drew, Thurston County; Dianne Dorey, Lewis County; Monty Cobb, Washington Association of County Officials; and Jim Jesernig, Pacific Coast Shellfish and Washington Association of Conservation Districts.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Agriculture & Natural Resources. Signed by 12 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

Minority Report: Do not pass. Signed by 1 member: Representative Nealey, Ranking Minority Member.

Staff: Jeff Olsen (786-7175).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Agriculture & Natural Resources:

The second substitute bill makes the modifications to the open space program a pilot program for Thurston County. The second substitute bill also directs the Joint Legislative Audit and Review Committee to provide a report to the Legislature regarding the pilot program by December 1, 2018.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill addresses equity and fairness in the tax system, and treats farms under 20 acres similar to larger farms. Income requirements are included for small farms to qualify for the current use program. The home site must be integral to the farm. The number of small farms in the United States is increasing. These small farms provide food for farmers markets, are healthy, are good for the environment, and maintain open spaces. Taxes are the highest expense for some small farms. The income requirement should be deleted, and sustainable farming should be encouraged. Back taxes are due if someone removes their property from the program. With populations growing, farmland should be preserved and more food grown.

(In support with concerns) The original bill without the income requirements for farms under five acres is preferred.

(Other) This benefit will not apply to most shellfish growers.

(Opposed) This bill will result in a tax shift to other taxpayers. The wording for the gross income requirements is not clear. It would be useful to study the issue before implementing this change.

Persons Testifying: (In support) Representative Reykdal, prime sponsor; Leslie Cushman; Nancy Laich, Common Ground Farm; Lorretta Seppanen, South of the Sound Community Farm Land Trust; Dr. E.J. Zita, Thurston County Agriculture Committee; Holli Johnson, Washington State Grange; July Pulich, Common Ground Farm; Dave Muehleisen, The Evergreen State College; Sandra Romero, Thurston County Board of County Commissioners; and Tom Davis, Washington Farm Bureau.

(In support with concerns) Jim Goche, Friendly Grove Farm.

(Other) Jim Jesernig, Pacific Coast Shellfish Growers.

(Opposed) Dianne Dorey, Lewis County Assessor; and Monty Cobb, Washington Association of County Officials.

Persons Signed In To Testify But Not Testifying: None.