

# HOUSE BILL REPORT

## E2SHB 1437

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**As Reported by House Committee On:**  
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:** House Committee on Finance (originally sponsored by Representatives Reykdal, Blake, Haigh, Orcutt, Lytton, Van De Wege and Zeiger).

**Brief History:**

**Committee Activity:**

Finance: 1/30/14, 2/11/14 [DP3S].

**Brief Summary of Third Substitute Bill**

- Requires the State Conservation Commission and Office of Farmland Preservation to conduct a study on small farms and report to the Legislature by December 1, 2014.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The third substitute bill be substituted therefor and the third substitute bill do pass. Signed by 13 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

**Staff:** Jeffrey Mitchell (786-7139).

**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;

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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.*

- 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.

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### **Summary of Third Substitute Bill:**

The State Conservation Commission (SCC) and Office of Farmland Preservation (OFP), in coordination with the Department of Revenue (DOR), is required to prepare a report to the Legislature by December 1, 2014, that evaluates: the ongoing viability of small farms and the impact the Open Space Program has on small farms; the potential modification to the existing income thresholds for small farms; and the fiscal impact and other consequences of extending current use valuation to home sites for smaller farms. The report must include proposed draft legislation to accomplish the SCC's recommendation. The report may also include an evaluation of the economic impact of farming and agricultural production on the state's overall economy, with particular focus on small scale agricultural production using a food and agriculture hub approach. In preparing the report, the SCC and OFP must form and consult with an agricultural current use stakeholder group, including representatives of statewide farm associations, the Washington State University Cooperative Extension Program, small and large farm advocates, county officials including county assessors and county commissioners, other academic institutions, and the agriculture and fiscal committees of the Legislature. Nonpartisan legislative staff on the appropriate fiscal committees will provide assistance in researching and compiling data used in the preparation of the report.

### **Third Substitute Bill Compared to Engrossed Second Substitute Bill:**

The third substitute bill strikes the section of the bill allowing home sites for small farms to qualify for current use valuation. It also requires the SCC and the OFP, in coordination with the DOR, to prepare a report to the Legislature by December 1, 2014, that evaluates: the ongoing viability of small farms and the impact the Open Space Program has on small farms; the potential modification to the existing income thresholds for small farms; and the fiscal impact and other consequences of extending current use valuation to home sites for smaller farms. Lastly, it includes legislative intent indicating that 2015 legislation will incorporate recommendations provided in the report.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Third 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 would allow thousands of small farmers and thousands of acres owned by these small farmers to receive equal property tax treatment. This bill will only apply to the land – not the home itself. The home site must be integral to the farming operation. This bill represents a small impact to the taxpayer – around \$3 for a residence valued at \$200,000. The county assessors have everything they need to administer this change in the law. An issue has been raised about expensive homes; however, homes would not be included. All structures are assessed at fair market value. Keeping small farms viable is a plus to the tax base and to the communities. Small farms provide full time jobs through the season, do research, and have strong community support. The home site is integral to a small farm operation. This is not an east side issue or west side issue – this is a statewide agricultural issue. All things are bought with food; if we lose our farms and farmland, nothing else matters. Why shouldn't small farms have the same benefits that are afforded to large farms? This is a small step in fixing a much larger problem. Washington has lost 2 million acres of farmland. Farms need to stay within our urbanized regions. Eighty percent of farms are considered small according to a United States Department of Agriculture report. This substitute bill is very simple. This bill will reduce barriers to farming and will increase local food production. Snohomish County is seeing a significant loss of farmland. Many people would be willing to pay an additional amount to preserve farmland. The law would still exclude hobby farms.

(Opposed) The average homeowner will bear the burden of this bill due to the tax shift. Almost 10 percent of properties receive some type of exemption or alternative valuation in Thurston County. This is a fairness issue. A homeowner does not get this kind of exemption. Don't penalize homeowners. Some of the people that will be impacted by the tax shift cannot afford the increase in the taxes. The tax shift has become significant. Assessors deal with all taxpayers, not just individual groups. In Pacific County, there is an Emergency Medical Services (EMS) levy that is pegged up against its maximum rate. Therefore, if the value is pulled off the tax roll, it impacts revenue available for EMS.

**Persons Testifying:** (In support) Leslie Cushman; Jim Goche, Friendly Grove Farm; Nancy Laich, Common Ground Farm; Bruce Morgan, Violet Prairie Plantation; Peggy Smith, League of Women Voters; Margaret Skolmen; Ron Shultz, Washington State Conservation Commission; Heather Hansen, Washington State Nursery Landscape Association; Holli Johnson, Washington State Grange; Loretta Seppanen, South of the Sound Community Farmland Trust; and Addie Candub, Tilth Producers of Washington.

(Opposed) Dennis Pulsipher; Dianne Dorey; Bruce Walker; Peter VanNortwid; and Monty Cobb, Washington State of County Officials.

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