

HOUSE BILL REPORT

HB 2306

As Reported by House Committee On:
Finance

Title: An act relating to current use valuation for farm and agricultural land.

Brief Description: Concerning current use valuation for farm and agricultural land.

Sponsors: Representatives Lytton, Morris and Blake.

Brief History:

Committee Activity:

Finance: 1/21/14, 2/6/14 [DPS].

Brief Summary of Substitute Bill

- Clarifies that individual parcels combining to meet the 20-acre threshold under the farm and agricultural land classification do not have to directly produce gross income.
- Allows land included in the implementation of a work plan under the state Voluntary Stewardship Program to qualify as farm and agricultural land.
- Requires the Department of Revenue to provide guidance to county assessors to ensure uniform and consistent property tax practices.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Carlyle, Chair; Orcutt, Assistant Ranking Minority Member; Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

Minority Report: Do not pass. Signed by 3 members: Representatives Tharinger, Vice Chair; Nealey, Ranking Minority Member; Condotta.

Staff: Jeff Mitchell (786-7139).

Background:

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.

All property is subject to a property tax each year based on its assessed value, which is generally its fair market value. The state Constitution authorizes agricultural, timber, and open space lands to be valued on the basis of their current use value rather than fair market value.

The Open Space Program (Program) is one of two programs that implement the constitutional exception allowing property to be valued at less than fair market value if the land is used for agricultural, timber, or open space purposes. Under the Program, property may be valued at current use value within three different classifications: farm and agricultural land; timber land; and open space land.

With respect to farm and agricultural land, the parcel must be 20 or more acres and: (1) devoted primarily to the production of agricultural products for commercial purposes; or (2) enrolled in the Federal Conservation Reserve Program (CRP). Farm and agricultural land that is less than 20 acres and devoted primarily to agricultural uses may qualify; however, state law provides minimum gross income-per-acre thresholds to qualify.

For farm and agricultural land, multiple parcels may be combined to meet the 20-acre threshold if the parcels are contiguous. Also for farm and agricultural land qualifying under the 20-acre threshold, land used for housing or as the principal place of residence of the farm operator or owner of the land may qualify if the land on which the housing or residence is located on or is contiguous to the classified parcel and integral to the use of the classified land. "Integral" is defined in the Washington Administrative Code to mean central or inherent to the use or operation of the classified land.

Portions of classified lands that are used for incidental purposes that are compatible with agricultural purposes, such as wetlands preservation, do not disqualify the classified land as long as the land used for incidental purposes does not exceed 20 percent of the classified land.

In 2011 the Voluntary Stewardship Program (VSP) was enacted. The VSP uses incentives to promote agricultural and environmental stewardship. The 28 counties participating in the program are eligible for funding for base stewardship program operations and may nominate specific watersheds as priority watersheds for additional incentives and project funding. The Washington State Conservation Commission provides administrative oversight for the VSP.

Summary of Substitute Bill:

Land used, but not owned, by a farmer who also owns land in the over 20-acre threshold does not have to produce cash income as long as the land is used primarily for agricultural purposes.

The Department of Revenue (DOR) is required to provide guidance to county assessors to ensure uniform and consistent property tax practices across the state.

For farm and agricultural land meeting the 20-acre threshold under current law, it is clarified that individual parcels do not have to directly generate income as long as the individual parcels are devoted primarily to agricultural uses and the activities on the combined parcels generate cash income by producing one or more agricultural products.

Land included in the implementation of a work plan under the VSP may qualify as farm and agricultural land, similar to land enrolled in the Federal CRP.

Substitute Bill Compared to Original Bill:

The substitute eliminates the following: (1) the changes that would have increased the incidental use percentage; (2) changes related to home sites on farm and agricultural land; and (3) the changes that would have allowed noncontiguous parcels to qualify if the parcels were part of a single, integrated farming operation.

The substitute bill makes the following new changes: (1) It is clarified that individual parcels that have been combined to qualify for the 20-acre classification do not have to individually generate cash income; (2) a parcel that is over 5 acres that is leased or otherwise used by a farmer with property in the 20-acre classification may qualify under the program; (3) land included in a work plan under the VSP may qualify for current use valuation as farm and agriculture land; and (4) the DOR is required to provide guidance to assessors to ensure a uniform administration of the Open Space Program.

Appropriation: None.

Fiscal Note: Available.

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) This bill helps clarify language that some see as ambiguous. This bill helps ensure that agricultural land stays in production. We are trying to preserve farmland and have a predictable assessment process. Farmers often have multiple parcels that may or may not be contiguous; however, these parcels are necessary to have a viable farm operation. The DOR indicated that legislative changes are required to reduce the likelihood of misinterpretation. Often times, a farmer will lease land and use it to grow feed that supports other farm operations; however, this land does not specifically generate income. It needs to be clarified that this land also qualifies. A farm should be treated as a farm regardless of configuration. The VSP language is a good addition to the bill. We see this bill as working with farm and ranch families to protect their viability. This bill will help ensure that our local food production does not get reduced and our open spaces do not turn into strip malls. The profit margins are thin for the agricultural industry. A Washington State University report highlights the degree to which working lands are being lost. Farmers in San Juan County are buying acres here and there to make their farming operations work, but the tax

policy should be consistent. A farmland preservation task force concluded that the Open Space Program is essential in helping ensure the preservation of agricultural lands. The bill is a good opportunity to address tax issues specific to small acreage operations.

(Opposed) The bill is far more reaching than just clarifying ambiguities. The bill opens up new avenues for claiming the property tax exemption. Packing facilities and warehouses could get this exemption as currently drafted. In Lewis County, about 60 percent of parcels receive an exemption. Therefore, there would be a tax shift on remaining property owners. This bill would cause a large tax shift and have some unintended consequences; however, we would like to work on the language.

Persons Testifying: (In support) Jamie Stephens, San Juan County; Evan Sheffels, Washington Farm Bureau; Holli Johnson, Washington State Grange; and Ron Shultz, Washington State Conservation Commission.

(Opposed) Peter VanNortwick, Clark County; Dianne Dorey, Lewis County and Washington State Association of County Auditors; and Alex Soldano.

Persons Signed In To Testify But Not Testifying: None.