

SENATE BILL REPORT

SHB 1818

As of February 22, 2024

Title: An act relating to exclusion of compensating tax when land is sold to a governmental entity intending to manage the land similarly to designated forestland or timberland.

Brief Description: Concerning the exclusion of compensating tax when land is sold to a governmental entity intending to manage the land similarly to designated forestland or timberland.

Sponsors: House Committee on Finance (originally sponsored by Representatives Tharinger and Chapman).

Brief History: Passed House: 1/17/24, 97-0.

Committee Activity: Agriculture, Water, Natural Resources & Parks: 2/15/24, 2/19/24 [DP-WM].

Ways & Means: 2/22/24.

Brief Summary of Bill

- Creates an exception to additional and compensating tax when there is a sale or transfer of designated forestland or timberland to a governmental entity.

SENATE COMMITTEE ON AGRICULTURE, WATER, NATURAL RESOURCES & PARKS

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Van De Wege, Chair; Salomon, Vice Chair; Muzzall, Ranking Member; Short, Stanford, Wagoner and Warnick.

Staff: Jeff Olsen (786-7428)

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

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Most property is valued or assessed at its true and fair value for purposes of imposing property taxes. However, the state constitution allows the Legislature to enact legislation assessing certain types of real property at its present or current use for purposes of imposing property taxes. Two programs of current use valuation have been established: one program for forest lands and a second program that includes open space lands, farm and agricultural lands, and timber lands.

Property must meet certain conditions to have property taxes determined on current use values rather than market values. The land remains in current use classification if it continues to be used for the purpose it was placed in the current use program. Land is removed from the program for the following reasons:

- written notice from the owner to remove all or a portion of the classified land;
- sale or transfer to an owner making all or a portion of the land exempt from property taxes, such as a sale to a governmental entity that is exempt from property taxes;
- sale or transfer to a new owner unless the owner signed a notice of continuance;
- an owner who fails to respond to a request from the assessor for information regarding use of the land;
- the granting authority denies an owner's request for reclassification;
- the assessor determines land no longer meets criteria; or
- the assessor discovers the land was classified in error.

When property is removed from current use classification, back taxes, plus interest, must be paid by the landowner. For open space categories, back taxes, also called additional tax, represent the tax benefit received over the most recent seven years plus interest and penalties. For designated forestland, back taxes, also called compensating tax, are equal to the tax benefit in the most recent year multiplied by the number of years in the program—but not more than nine—plus compensating taxes on the land at forestland value up to the date of removal. Prorated taxes on the land at true and fair value from the date of removal to the end of the current tax year and any interest is also owed. Additional and compensating tax become a lien on the property if not paid within 30 days after notification of it being due. There are some exceptions to the requirement for payment of back taxes.

When land classified under either category is sold to a buyer subject to property tax who intends to manage the land under its existing classification, the buyer is required to submit a notice of continuance and other paperwork, sometimes including a land management plan to the county assessor. Once approved, additional tax and compensating tax are not collected from the seller. If a seller sells or transfers land to a governmental entity that is not subject to property tax, the seller is required to pay additional or compensating tax on the property due to the exclusion of governmental entities from the payment of property tax.

Summary of Bill: An exception to additional and compensating tax is created for certain sales or transfers of designated forestland or timberland to a governmental entity. To qualify for the exception, the governmental entity must manage the land consistent with the designated forestland or timberland program it was previously classified in, and the governmental entity must provide the county assessor with a timber management plan or a notice of intent to manage the land as designated forestland or open space as required by law. If the government entity sells or transfers the land, back taxes are due by the government owner unless the change in the use of the land, sale, or transfer falls under an exception in law.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony (Agriculture, Water, Natural Resources & Parks): PRO: The changes in the bill evens the playing field for those selling forestland to cities or other public entities that manage those lands as forestlands. Forestlands sold to Montesano generate funding for public infrastructure and allows those lands to continue in sustainable forestry. DNR is repositioning underperforming forestlands, and is at a disadvantage when purchasing lands from private sellers. The current law harms sales to the public sector and community forests. There needs to be incentives to keep working lands working, and there is support for removing this financial barrier. Under current law a governmental entity needs to pay above market value to cover the tax that is due by the seller.

Persons Testifying (Agriculture, Water, Natural Resources & Parks): PRO: Duane Emmons, Department of Natural Resources; Scott Richards, The Nature Conservancy; Ian Cope, City of Montesano; Dan Lindgren, Grays Harbor County Assessor.

Persons Signed In To Testify But Not Testifying (Agriculture, Water, Natural Resources & Parks): No one.

Staff Summary of Public Testimony (Ways & Means): PRO: As one of the largest governmental purchasers of forest land, compensating tax is a big issue for us. When a forest land owner sells to another private land owner who keeps it as forest land, they don't pay compensating tax. However, when they sell it to us, even though we are managing it as a working forest, compensating tax is due. As an example, we were negotiating with a private land owner to purchase 640 acres. Compensating tax was estimated at \$180,000, which is 20 percent of the purchase price. The current tax on the property is \$700 per year. That is 250 years worth of tax. The bill before you today will level the playing field for

cities that operate community forests. The compensating tax makes it less likely that a private land owner will sell the property to governmental entities. We use the funds from harvesting timber to pay for critical infrastructure that benefit the residents of Montesano.

Persons Testifying (Ways & Means): PRO: Ian Cope, Montesano City Council; Duane Emmons, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.