

Multiple Agency Fiscal Note Summary

Bill Number: 1818 HB	Title: Forestland/compensating tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total \$	0	0	0	0	0	0	0	0	0

Agency Name	2023-25		2025-27		2027-29		
	GF- State	Total	GF- State	Total	GF- State	Total	
Local Gov. Courts							
Loc School dist-SPI							
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.						
Local Gov. Total							

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.0	7,400	7,400	7,400	.0	0	0	0	.0	0	0	0
Department of Natural Resources	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total \$	0.0	7,400	7,400	7,400	0.0	0	0	0	0.0	0	0	0

Agency Name	2023-25			2025-27			2027-29			
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total	
Local Gov. Courts										
Loc School dist-SPI										
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.									
Local Gov. Total										

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29			
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total	
Department of Revenue	.0	0	0	.0	0	0	.0	0	0	
Department of Natural Resources	Non-zero but indeterminate cost and/or savings. Please see discussion.									
Total \$	0.0	0	0	0.0	0	0	0.0	0	0	

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Breakout

Department of Natural Resources	Non-zero but indeterminate cost and/or savings. Please see discussion.
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Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Revised 3/21/2023
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Department of Revenue Fiscal Note

Bill Number: 1818 HB	Title: Forestland/compensating tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.0		
Account					
GF-STATE-State 001-1	7,400		7,400		
Total \$	7,400		7,400		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Kristina King	Phone: 60-786-7190	Date: 02/15/2023
Agency Preparation: Kari Kenall	Phone: 60-534-1508	Date: 02/21/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 02/21/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/21/2023

Request # 1818-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

When the assessor removes land once classified as forestland under the designated forestland (DFL) program or the land sells or transfers and the removal, sale, or transfer doesn't fit one of the exceptions in law, a "compensating tax" is due. The amount of compensating tax is:

- The difference between the last DFL value and the new assessed value of the land.
- The calculated difference is multiplied by the last levy rate extended against the land and by the number of years the land was in the DFL program, not to exceed nine.
- Plus compensating taxes on the land at forestland values up to the date of removal.
- Plus the prorated taxes on the land at true and fair value from the date of removal to the end of the current tax year.
- Plus interest at a rate established by law.

When the assessor removes land once classified under the open space taxation program or the land sells or transfers and the removal, sale, or transfer doesn't fit one of the exceptions in law, an "additional tax" is due. The amount of additional tax is:

- The difference between the property tax paid when the land was in the open space taxation program and the amount of property tax due and payable for the seven years prior had the land not been in the program.
- Plus interest and penalty at rates established by law.

Compensating tax and additional tax become a lien on the property if not paid within 30 days after notification of it being due.

PROPOSAL:

This bill creates an exception to the compensating tax and additional tax when there is a sale or transfer to a governmental entity. The governmental entity must manage the land consistent with the program it was previously in (DFL or open space taxation) and the governmental entity must provide the county assessor with a timber management plan or a notice of intent to manage the land as DFL or open space as required by law.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS

- Governmental entities means organizations automatically exempt from ad valorem taxation.
- Governmental entities cannot be in the DFL or open space taxation programs because they are exempt from property taxes.

DATA SOURCES

Department of Revenue, Property Tax Statistics, 2022

REVENUE ESTIMATES

This legislation results in a loss to state and local revenues, however, the loss is indeterminate.

When the county treasurer collects compensating tax or additional tax, they distribute what they collect to taxing districts in the same manner they distribute current taxes applicable to the subject land. The treasurer distributes collected interest to the county's current expense fund. Although this legislation decreases the amount that will be distributed to taxing districts in the form of compensating and additional tax, it does not result in a loss of state or local property tax levies.

There are currently 16.6 million acres of Washington land in the DFL and current use taxation programs. These acres have a combined DFL and current use value of approximately \$7.3 million. The number of governmental entities acquiring ownership of these acres with the intent to continue managing the land as required by DFL or open space law is immeasurable.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000): indeterminate

Local Government, if applicable (cash basis, \$000): indeterminate

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

FIRST YEAR COSTS:

The department will incur total costs of \$7,400 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.08 FTE.
- Amend two administrative rules.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.0		
A-Salaries and Wages	4,800		4,800		
B-Employee Benefits	1,600		1,600		
E-Goods and Other Services	600		600		
J-Capital Outlays	400		400		
Total \$	\$7,400		\$7,400		

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.1		0.1		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited process to amend WAC 458-30-300, titled: "Additional tax - Withdrawal or removal from classification." and WAC 458-30-700, titled: "Designated forest land - Removal - Change in status - Compensating tax." Persons affected by this rulemaking would include government entities that acquire designated forest land or currently use timber land.

Individual State Agency Fiscal Note

Bill Number: 1818 HB	Title: Forestland/compensating tax	Agency: 490-Department of Natural Resources
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

Non-zero but indeterminate cost and/or savings. Please see discussion.

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Kristina King	Phone: 360-786-7190	Date: 02/15/2023
Agency Preparation: Nicole Dixon	Phone: 360-902-1155	Date: 03/17/2023
Agency Approval: Nicole Dixon	Phone: 360-902-1155	Date: 03/17/2023
OFM Review: Lisa Borkowski	Phone: (360) 742-2239	Date: 03/21/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1: Amends existing statute regarding forestland valuation and compensating tax assessment (RCW 84.33.140). This bill would exempt land owners from paying compensating tax when selling to a governmental entity that will continue to manage the property as forestland.

Section 2: Amends existing statute (RCW 84.34.108) to reflect the same language as was inserted in Section 1 around exempting land owners from paying compensating tax when selling to a government entity that will continue to manage the property as forestland.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

IV. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

Non-zero but indeterminate cost and/or savings. Please see discussion.

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

In the last year, with the increase in property values, the amount of compensating tax on some parcels have been calculated at 20 to 25 percent of the purchase price. This increase is especially high on properties that are at risk of conversion, since the county will apply a tax rate consistent with residential development and not working forest.

An example of this: Currently, DNR is negotiating with a large land owner on a piece of property and the estimated compensating tax for the parcel has been calculated at \$185,000. The offer for the land is \$790,000.

Actual saving will impact the capital budget because transactions (land purchases) fall under capital appropriation.

Indeterminate fiscal savings to the capital budget. Based upon an average historical year of past purchases, this bill could save the state approximately \$100,000 to \$200,000 per year. Actual savings is on a project-by-project basis determined by location and the amount of compensating tax that would have been applied under the law as currently written.

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1818 HB

Title: Forestland/compensating tax

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities: indeterminate expenditure decrease
- Counties: indeterminate expenditure decrease, indeterminate revenue decrease
- Special Districts:
- Specific jurisdictions only:
- Variance occurs due to:

Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/22/2023
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 02/15/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/22/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/22/2023

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This bill creates a compensating tax exemption and an additional tax exemption when there is a sale or transfer of forestland (that is part of a DFL or open space program) to a governmental entity if the governmental entity manages the land in the same manner. The governmental entity must provide the county assessor with a timber management plan or a notice of intent to manage the land as DFL or open space.

The bill takes effect 90 days after final adjournment of the session.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill will decrease expenses of local governments purchasing forestland properties, indeterminately.

The compensation tax is an expense due at the time of sale on 10 years of back taxes and is paid by the seller of forestland (previously managed in the DFL or open space taxation program) if the land will no longer be managed in these programs. This bill allows a governmental entity purchasing such property to continue to manage the property in the DFL or open space taxation program (even though they are an exempt entity) which will remove the burden of paying compensation tax on the sale of the property from the seller. This essentially removes a disincentive of private forestland sellers from selling to governmental entities. According to local governments in Grays Harbor County, current law requires governmental entities purchasing forestland to pay more in order to offset the obligation of the seller to pay compensation tax due to the discontinuation of the property in the program.

This bill will decrease the expenses of local governments purchasing forestland (previously managed in the DFL or open space taxation program), indeterminately.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

This bill will decrease county revenue indeterminately due to an indeterminate decrease of compensation tax and additional tax amounts.

According to the Dept. of Revenue, “when the county treasurer collects compensating tax or additional tax, they distribute what they collect to taxing districts in the same manner they distribute current taxes applicable to the subject land. The treasurer distributes collected interest to the county's current expense fund. Although this legislation decreases the amount that will be distributed to taxing districts in the form of compensating and additional tax, it does not result in a loss of state or local property tax levies.”

According to county assessors, revenue from compensation tax and additional tax are not budgeted for, are sporadic, and the decrease due to this legislation is expected to be minor.

SOURCES

Dept. of Revenue Fiscal Note

Grays Harbor County Assessors Office