



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0003 - Revise forest land taxation laws (Cuffe, Mike)

Status: As Introduced

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$125,000)	(\$167,000)	(\$214,000)	(\$264,000)
State Special Revenue	(\$7,900)	(\$10,600)	(\$13,500)	(\$16,700)
Net Impact-General Fund Balance:	<u>(\$125,000)</u>	<u>(\$167,000)</u>	<u>(\$214,000)</u>	<u>(\$264,000)</u>

Description of fiscal impact: SB 3 makes three changes to the property taxation of class 10 forest land. First it changes the six-year appraisal cycle for forest land property to a two-year cycle. Two-year cycles start in tax year (TY) 2025. Second, for the 2025 Biennium, SB 3 changes the present law tax rate of 0.37% to 0.29% in TY 2023 (FY 2024) and 0.27% in TY 2024 (FY 2025). This holds class 10 taxable value approximately flat in TY 2023 and TY 2024. Third, the basis for assessing the forest land productivity (stumpage) price standard (value) is changed by switching to a 10-year Olympic average (excluding the highest and lowest value) from a simple 10-year average. These changes reduce class 10 taxable value relative to present law and therefore reduce state 95 mill general fund property tax collections and university six-mill state special revenue.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under present law forest land (class 10 property) is assessed based the volume of the timber that can be produced, under average management practices and with standard capitalization rates, given the soil and climatological characteristics of the specific property (productivity zone) times the market value of the

- production (stumpage value). Each year’s stumpage value factor is adjusted by the change in the moving 10-year average value. The taxable value of forest land is then the productivity value times the class 10 tax rate.
2. SB 3 changes the reappraisal cycle for class 10 forest land property from a six-year cycle to a two-year cycle, beginning in TY 2025. It also reduces the tax rate for class 10 property to 0.29% for TY 2023 (FY 2024) and to 0.27% for TY 2024 (FY 2025). This holds forest land taxable value approximately flat for FY 2023, FY 2024, and FY 2025. In TY 2025 and TY 2026 the new appraisal basis is assumed to lower assessed value. The reversion of the tax rate to 0.37% does not fully offset the reduction in assessed value.
 3. The revenue estimate resolution, HJ 2, contains the forecast for forest land taxable value under current law. The productivity (market) value needed to estimate the impact of SB 3 is derived by dividing those taxable values by the present law tax rate (0.37%) for TY 2023 through TY 2026.
 4. In the four years prior to the latest six-year reappraisal cycle, which began January 1, 2021, the market value of class 10 property decreased by almost \$3,000,000 every year as property was converted to other classes of property. It is assumed this trend will continue and is reflected in the values for TY 2025 and TY 2026.
 5. The table below presents the impacts of SB 2 relative to current law.

Assessed Value and Taxable Value under Present Law and SB 3 as Introduced							
Tax Year	Assessed Value		Tax Rate		Taxable Value		Taxable Value Difference
	Current Law	SB 3	Current Law	SB 3	Current Law	SB 3	
2023	\$1,645,022,000	\$1,645,022,000	0.37%	0.29%	\$6,086,581	\$4,770,564	\$1,316,018
2024	\$1,761,819,000	\$1,761,819,000	0.37%	0.27%	\$6,518,730	\$4,756,911	\$1,761,819
2025	\$1,886,908,000	\$1,279,131,000	0.37%	0.37%	\$6,981,560	\$4,732,785	\$2,248,775
2026	\$2,020,879,000	\$1,270,532,000	0.37%	0.37%	\$7,477,252	\$4,700,968	\$2,776,284

6. The state revenue impact is estimated by applying the 95 statewide mills and six university mills to the difference in taxable value. The reduction in general fund revenue is estimated at \$125,000 in FY 2024, \$167,000 in FY 2025, \$214,000 in FY 2026, and \$264,000 in FY 2027. The six-mills state special revenue reductions are \$7,900 in FY 2024, \$10,600 in FY 2025, \$13,500 in FY 2026, and \$16,700 in FY 2027.

Administrative Costs

7. There will be no additional costs associated with this bill.

Fiscal Impact:	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
Revenues:				
General Fund (01)	(\$125,000)	(\$167,000)	(\$214,000)	(\$264,000)
State Special Revenue (02)	(\$7,900)	(\$10,600)	(\$13,500)	(\$16,700)
TOTAL Revenues	(\$132,900)	(\$177,600)	(\$227,500)	(\$280,700)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$125,000)	(\$167,000)	(\$214,000)	(\$264,000)
State Special Revenue (02)	(\$7,900)	(\$10,600)	(\$13,500)	(\$16,700)

Effect on County or Other Local Revenues or Expenditures:

1. Lower taxable value due to SB 3 will result in small tax shifts from forest land property-owners to all other property owners in local jurisdictions with forest property.
2. SB 3 reduces class 10 taxable value by about 30% statewide, however, class 10 represents a small share of total statewide taxable value (0.142%). The four-year average percent reduction in statewide taxable value due to SB 3 is 0.043%. Shifts will be smaller in districts with below average shares of forest land taxable value and the shifts will be higher in districts where there is significant forest land property.

NO SPONSOR SIGNATURE

_____ 1/4/23 _____ [Signature] _____ 12-29-22
 Sponsor's Initials Date Budget Director's Initials Date