

Fiscal Estimate - 2001 Session

Original Updated Corrected Supplemental

LRB Number **01-2137/4** Introduction Number **AB-629**

Subject
Definition of agricultural land for property tax purposes

Fiscal Effect

State:
 No State Fiscal Effect
 Indeterminate
 Increase Existing Appropriations Increase Existing Revenues
 Decrease Existing Appropriations Decrease Existing Revenues
 Create New Appropriations
 Increase Costs - May be possible to absorb within agency's budget
 Yes No
 Decrease Costs

Local:
 No Local Government Costs
 Indeterminate
1. Increase Costs 3. Increase Revenue
 Permissive Mandatory Permissive Mandatory
2. Decrease Costs 4. Decrease Revenue
 Permissive Mandatory Permissive Mandatory
5. Types of Local Government Units Affected
 Towns Village Cities
 Counties Others
 School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**
 GPR FED PRO PRS SEG SEGS

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Fiscal Estimate Narratives

DOR 11/28/2001

LRB Number	01-2137/4	Introduction Number	AB-629	Estimate Type	Updated
Subject					
Definition of agricultural land for property tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, agricultural land is assessed according to the income generated from its agricultural use; all other property is assessed based on the full value that could ordinarily be obtained at a private sale. Agricultural land is defined by rule to mean land in agricultural use for the production season of the prior year and not in a use that is incompatible with agricultural use on January 1 of the assessment year. Thus, acreage on a farm that is not in agricultural use for the production season or that is incompatible with agricultural use is not subject to use value assessment. This acreage may include land necessary for agricultural buildings and undeveloped land such as forest land or swamp and waste.

Under the bill, agricultural land would include land that meets all of the following criteria:

- 1) Is within the quarter quarter section (typically 40 acres) of agricultural land,
- 2) Is owned by the person who owns the quarter quarter section,
- 3) Is so covered with trees or woody vegetation or so highly erodible because the land is steep, shallow or consisting of course soil or low organic matter or so rocky that it is impractical to use the land for pasture or for growing crops,
- 4) Is not eligible for the Managed Forest Law program, and
- 5) Has not been rented or leased for nonagricultural purposes in the prior year.

The assessed value of an acre of land that meets these criteria would be the average of the value of an acre of pasture land and the value of an acre of swamp and waste. Such valuation would be limited to 25% of the acreage of the quarter quarter; acreage in excess of the 25% would be assessed as under current law.

Local Fiscal Effect

According to the Department of Agriculture, Trade and Consumer Protection, farms consisted of 16.2 million acres in 2000. According to the Department of Revenue, 12.8 million acres were classified Agricultural and 0.2 million acres were classified Other (i.e. farmhouses, farm buildings and the underlying land) in 2000. Thus, it can be assumed that approximately 3.2 million acres (16.2 million - 12.8 million - 0.2 million) could potentially be land on farms described under criteria 3 above, i.e. wooded or swamp land that could not be cultivated or used as pasture. It is estimated that the potential number of acres of affected wooded/swamp land on farms statewide is 25% (3.2 million/12.8 million) of the number of acres classified as Agricultural. It is assumed that the maximum affected acreage of wooded/swamp land on farmland in each municipality is equal to 25% of the acres classified as Agricultural in the municipality.

The 2000 value of affected wooded/swamp land on farms in each municipality is estimated to be the acreage of wooded/swamp land on farms in the municipality (i.e. 25 % of agricultural land) multiplied by the per acre average of the 2000 equalized value of forest land and swamp and waste in that municipality. Statewide, the 2000 value of affected wooded/swamp land on farms is estimated to be \$2.7 billion. The 2001 equalized value of swamp and waste land increased 23% relative to 2000, and the 2001 equalized value of forest land increased 19% relative to 2000. Assuming a 20% increase in 2001 and a 10% increase in 2002, it is estimated that the 2002 equalized value of wooded/swamp land on farms affected under the bill is \$3.56 billion [(\$2.7 billion x 1.2) x 1.1] under current law.

Under the bill, the value of an affected acre would be equal to the average of the value of an acre of pasture land and the value of an acre of swamp or waste land. The statewide average 2002 equalized value of pasture is \$70 per acre; the estimated statewide average 2002 equalized value of swamp and waste is \$668 per acre. The statewide average full value of affected wooded/swamp land on farmland under the bill would be \$369 [(\$70+\$668)/2] per acre. Thus, under the bill, the 3.2 million potential affected acres would be valued at approximately \$1.18 billion [3.2 million x \$369].

If the value of all 3.2 million acres would be affected under the bill, the bill would result in a \$2.38 billion [\$3.56 billion - \$1.18 billion] decrease in equalized value for affected property. Using the 2000/01 average full value effective tax rate for towns, the bill would result in a potential shift of \$42 million [\$2.38 billion x .01768] from owners of affected wooded/swamp land on farmland to owners of other taxable property.

It is unlikely that the entire 3.2 million acres would meet all the criteria required under the bill. Assuming that 25% of the potential acreage would be affected, the bill would result in a decrease in equalized value of \$595.8 million (\$2.38 billion x .25) and a shift of \$10.5 million (\$42 million x .25) from affected property to owners of other taxable property.

State Fiscal Effect

Assuming that 25% of the potential acreage would be affected, the bill would result in a decrease in SEG state forestry taxes of \$119,200 [\$595.8 million x .0002].

The bill would result in increased department costs associated with the necessary adjustments to computer programs used in equalization of property values. It is estimated that approximately 200 computer programming hours would be required at a cost of \$ 8,000, the cost of which could be absorbed by the department.

Local assessors would incur costs, primarily in the first year, to identify wooded/swamp land on agricultural parcels that satisfy the criteria required under the bill.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

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 Updated
 Corrected
 Supplemental

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Subject			
Definition of agricultural land for property tax purposes			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Change)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			-119,000
TOTAL State Revenues		\$	\$-119,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$See text of fiscal note.
NET CHANGE IN REVENUE		\$-119,000	\$See text of fiscal note.
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		Date	
		11/27/2001	