

**STATE and LOCAL  
FISCAL IMPACT**

**Drafting Number:** LLS 11-0353  
**Prime Sponsor(s):** Rep. Massey

**Date:** February 16, 2011  
**Bill Status:** House Agriculture  
**Fiscal Analyst:** Kate Watkins (303-866-6289)

**TITLE:** CONCERNING A REQUIREMENT THAT A RESIDENCE BE INTEGRAL TO AN AGRICULTURAL OPERATION IN DETERMINING WHETHER TWO ACRES OR LESS ASSOCIATED WITH THE RESIDENCE SATISFIES THE DEFINITION OF AGRICULTURAL LAND FOR PROPERTY TAX PURPOSES.

<b>Fiscal Impact Summary</b>	<b>FY 2011-2012</b>	<b>FY 2012-2013</b>
<b>State Revenue</b>		
<b>State Expenditures</b> School Finance Act*		<i>Decrease</i>
<b>FTE Position Change</b>		
<b>Effective Date:</b> January 1, 2012.		
<b>Appropriation Summary for FY 2011-2012:</b> None required.		
<b>Local Government Impact:</b> See Local Government Impact section.		

\*School Finance Act expenditures could be from the General Fund, State Education Fund, or a combination of both.

**Summary of Legislation**

Under current law, residential property on agricultural land is assessed at the residential assessment rate. However, the land underneath it is classified as agricultural, and is valued and assessed as such. This bill amends the definition of "agricultural land" to exclude up to two acres of land associated with residential improvements located on the land unless the residence is "integral to an agricultural operation" conducted on the land. The bill affects property taxes starting in property tax year 2012.

The Division of Property Taxation in the Department of Local Affairs must define the term "integral to an agricultural operation" in property tax administration manuals, appraisal procedures, and instructions. When defining the term, the division is required to consider:

- the level of occupant participation in the agricultural operation;
- whether the owner participates in the operation;
- whether multiple properties are involved in the operation; and
- the nature of the agricultural operation.

Any person who objects to a county assessor's application of the new definition of the term "integral to an agricultural operation" may appeal to a county board of equalization.

## **Background**

Under current law, the actual value of agricultural land is based on the earning or productive capacity of the land and residential land is based on the land's market value, which takes into account the sale value of the land and the value of adjacent properties, among other factors. While agricultural land is assessed at a higher rate, residential land generates significantly higher property tax revenue on a per-acre basis.

## **State Expenditures**

***School finance impact — state expenditure reduction.*** Starting FY 2012-13, this bill will increase property tax revenue to local governments, and as a result, is expected to increase the local share of funding for K-12 public education, which would reduce state expenditures to fund K-12 public education. Savings will accrue to the General Fund, State Education Fund, or both.

Under the School Finance Act of 1994, when a school district does not generate enough revenue from local sources to fund its total program, the state provides the difference. Therefore, any property tax revenue foregone at the local level for schools is backfilled by the state. Under this bill, some property owners currently paying a lower tax for agricultural property will see part of their land reclassified as residential and will pay more property taxes, thus reducing the state share of public K-12 school funding.

The Division of Property Taxation estimated the revenue impact of reclassifying portions of one- to five-acre agricultural properties that have residences; however, the actual percentage of these properties subject to reclassification is unknown, and will vary across counties. For illustrative purposes, Table 1 summarizes the division estimates of total property tax revenue to local governments and the state expenditure impact based on the portion of residences reclassified. For example, if 50 percent of these properties are reclassified, the state spending on school finance could be reduced by \$2.6 million; if only three percent of these properties are reclassified, the reduction would be around \$164,000. These estimates overstate the impact of this bill, because they are for one- to five-acre properties instead of up to two acres.

***Department of Local Affairs, Division of Property Taxation.*** The division would need to update procedural manuals and educational course materials to reflect the provisions of this bill. These materials are updated regularly within the current budget for the division. Therefore, updates resulting from this bill could be done within existing appropriations.

<b>Table 1. Estimates of State and Local Government Fiscal Impacts Resulting from Agricultural Land Reclassification to Residential</b>		
<b>Percent of 1- to 5-Acre Agricultural Residences Reclassified</b>	<b>Local Government Revenue Impact</b>	<b>State Spending for School Finance</b>
100% of Residences	\$21,661,989	(\$5,251,405)
50% of Residence	10,830,995	(2,625,702)
25% of Residences	5,415,497	(1,312,851)
12.5% of Residences	2,707,749	(656,426)
3.125% of Residences	676,937	(164,106)

*Source: Department of Local Affairs, Division of Property Taxation.*

*Note: This analysis was provided to the Agricultural Land Classification Task Force during the 2010 interim.*

### **Local Government Impact**

As stated above, starting FY 2012-13, this bill will increase the property tax revenue available to local governments, including cities, counties, and special districts. The actual number and value of properties subject to reclassification is unknown, and will vary across counties. For illustrative purposes, Table 1 shows local government revenue projections resulting from land reclassification for one- to five-acre residential sites. For example, if 50 percent of these properties are reclassified, statewide local government property tax revenue would be increased by \$10.8 million; if only three percent of these properties are reclassified, the reduction would be around \$676,937. These estimates overstate the impact of this bill, because they are for one-to five-acre properties instead of up to two acres.

Counties may experience an increase in appeal costs as a result of this bill.

### **Departments Contacted**

Property Taxation

Local Governments