

**BILL #** HB 2106

**TITLE:** property tax classification; conservation easement

**SPONSOR:** Huffman

**STATUS:** As Introduced

**REQUESTED BY:** House

**PREPARED BY:** Hans Olofsson

	<b>FISCAL YEAR</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>EXPENDITURES</b>			
General Fund – State Aid to Schools	\$-0-	\$851,700	\$851,700
<b>REVENUES</b>			
General Fund – Property Tax	\$-0-	\$(10,800)	\$(10,800)
<b>TOTAL</b>			
Combined General Fund Cost / Revenue Loss	\$-0-	\$862,500	\$862,500

### **FISCAL ANALYSIS**

#### **Description**

Beginning in the 2003 valuation year, this bill would change the classification of real property subject to an unlimited duration conservation easement. The assessment ratio for such properties would be lowered from 16% (class 2) to 5% (class 6). (A conservation easement is a legal agreement between a landowner and a land trust or a governmental body that restricts land uses or development rights on the property.)

#### **Estimated Impact**

As noted below, due to data limitations, the JLBC Staff's estimate is based on very broad assumptions and should be considered very speculative. The analysis assumes that Pima County's experience with conservation easements is similar to other counties. Under that assumption, this bill would cost the General Fund a projected \$862,500 in FY 2005. Of this amount, \$851,700 represents increased state aid to schools under the statutory formula, and \$10,800 represents revenue losses from unorganized districts and Minimum Qualifying (QTR) taxes. Under current law, taxation lags valuation by one year, which causes the fiscal impact to be delayed until tax year 2004, of for budgetary purposes, FY 2005. The cost to the General Fund in FY 2006 was also estimated to be \$862,500.

#### **Assumptions**

The starting point for our analysis was a report prepared by the assessor in Pima County in February of 2001. This report, which was based on information furnished by The Nature Conservancy group in Arizona, shows that 2,835 acres of land in Pima County is subject to conservation easements. The assessor estimated the total full cash value for these properties to be \$28,350,000. The corresponding net assessed value (NAV) depends on the assessment ratio, which is 16% under current law and 5% under this bill. This results in a NAV of \$4,536,000 under current law and \$1,417,500 under this bill. This means that Pima County would lose NAV in the amount of \$3,118,500 if this legislation were in effect today.

(Continued)

**Assumptions (Continued)**

The Nature Conservancy group provided us an estimate of the acreage of properties subject to conservation easements in other counties as well. However, because the county assessors we contacted were either unable to confirm the validity of the data or establish the full cash value for the properties, we were unable to utilize their data. Instead, we assumed that a county's NAV loss as a result of this bill would be in direct proportion to its geographical size relative to Pima County, the only county for which a complete analysis existed. For example, since the acreage of Yavapai County is 88.5% of that in Pima County, the corresponding NAV loss would be \$2,759,200, or 88.5% of \$3,811,500. This methodology was only applied to those counties in which conservation easements were known to exist. (The Nature Conservancy's data shows that besides Pima County, conservation easements also exist in Cochise, Coconino, Maricopa, Pinal, Santa Cruz, and Yavapai counties.) Using this methodology, we estimated the statewide NAV loss due to property reclassification to be \$19,692,900. This approach, however, is very speculative.

The projected increase in General Fund expenditures due to the \$19.7 million NAV loss is estimated to be \$851,700 in FY 2005. This estimate is based on an effective tax rate of \$4.3249 per \$100 NAV: \$3.8275 from the "qualifying levy" used in the school funding formula, and \$0.4974 from the statewide "county equalization" tax from the same formula. Under the K-12 Basic State Aid formula, state aid increases when a school district's property tax base decreases.

In addition, under this bill, state property taxes would decrease by an estimated \$(10,800) in unorganized and Minimum QTR districts, which would bring the total General Fund impact in FY 2005 to \$(862,500). The fiscal impact in FY 2006 was assumed to be the same as in FY 2005.

**Local Government Impact**

Local governments are projected to face primary property tax losses and/or shifts to other classes of property in the amount of:

<u>Local Government</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
School Districts	\$-0-	\$ (960,600)	\$ (960,600)
Cities	\$-0-	\$ (72,800)	\$ (72,800)
Counties	\$-0-	\$ (437,300)	\$ (437,300)
Community Colleges	\$-0-	\$ (200,700)	\$ (200,700)

In addition, secondary tax shifts to other classes of property are projected to add up to \$(790,100) in FY 2005 and FY 2006.

**Amendments**

None.