Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 219 (Delegate Beitzel)
Ways and Means

Tax - Property - Assessment and Valuation - Forest Conservation and Management Agreement

This bill specifies that woodland subject to a Forest Conservation and Management Agreement may not be reassessed when timber is harvested, as required under current law, if fewer than six acres of land are harvested and the land remains open space until the termination of the agreement.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: State property tax revenues may decrease by a minimal amount beginning in FY 2010, depending on the number of acres of woodland that are not reassessed. Expenditures are not affected.

Local Effect: Local property tax revenues may decrease by a minimal amount beginning in FY 2010, depending on the number of acres of woodland that are not reassessed. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Except under specified conditions, the value of woodland for assessment purposes that is in effect at the beginning of a Forest Conservation and Management Agreement may not be increased for the duration of the agreement. However, woodland must be reassessed when (1) an agreement ends and is not renewed; (2) timber is harvested, unless harvested according to a plan approved by the Department of Natural Resources (DNR); (3) land subject to an agreement is conveyed to a new owner except under specified conditions; or (4) an agreement is ended by DNR at the request of the owner or because of the owner's noncompliance. In addition, if only part of the land subject to an agreement is conveyed or only part of the timber is harvested, the reassessment must only apply to the part of the land that has been conveyed or harvested.

Background: An owner of five or more contiguous acres of forest land may enter the Forest Conservation and Management Program. Under the program, a landowner enters into a legal agreement with DNR to manage the covered forest land consistent with the agreement in exchange for a reduced or frozen property tax assessment. An agreement must remain effective for at least 15 years and may be transferred. If a forest landowner violates the agreement, the landowner is subject to back taxes computed from the beginning of the agreement. According to DNR, there are currently approximately 1,300 agreements in effect covering approximately 84,000 acres.

State Fiscal Effect: According to DNR, only two agreements have been terminated for noncompliance with a Forest Conservation and Management Agreement since 2000, while 42 agreements have been terminated for noncompliance since 1977. The most common cause for an agreement's termination is the sale of the property, either in its entirety or a portion. In some cases, the landowner sells a portion of the property which may disqualify the property for remaining in the program. In other cases, a buyer may decline to renew the agreement upon transfer of the property which causes the agreement to terminate. Since 2000, 55 agreements have been terminated due to the sale of the property to a new owner.

DNR also reports that some landowners decide to opt out of the program for various reasons. For example, they may have plans for the property and decide to get out of the agreement and pay the back taxes now rather than wait until later in the process and owe another year or two of taxes. Since 2000, 25 agreements have been terminated for this reason.

State property tax revenues may decrease by a minimal amount to the extent that woodland that would otherwise be reassessed due to timber harvesting would not be reassessed under the bill. The amount of the decrease depends on the number of acres that are not reassessed as they would be under current law and the market value of the property after reassessment. The current assessment value of property subject to a Forest Conservation and Management Agreement is $125 per acre, which in some cases may be significantly below market value. In addition, current law requires the payment of back taxes for violation of a Forest Conservation and Management Agreement. Landowners that would be subject to back taxes under current law for violating an agreement would be exempt under the bill.

State property taxes are special fund revenues used for debt service payments on the State's general obligation bonds. The State property tax rate is $0.112 per $100 of assessment. State property tax revenues are projected to total $750.0 million in fiscal 2010.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2010 State budget allowance includes $785.0 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

Local Fiscal Effect: Local property tax revenues may decrease by a minimal amount to the extent that woodland that would otherwise be reassessed due to timber harvesting would not be reassessed under the bill. The amount of the decrease depends on the number of acres that would not be reassessed and the market value of the property after reassessment.

Additional Information

Prior Introductions: None.

Cross File: SB 223 (Senator Edwards) - Budget and Taxation.

Information Source(s): State Department of Assessments and Taxation, Department of Natural Resources, Department of Legislative Services

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mcp/hlb

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