

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**April 13, 2003**

**TO:** Honorable Fred Hill, Chair, House Committee on Local Government Ways and Means

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB3395** by Christian (Relating to the appraisal of timber land.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3395, As Introduced: a negative impact of (\$470,000) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	(\$235,000)
2005	(\$235,000)
2006	(\$5,670,709)
2007	(\$5,942,495)
2008	(\$6,227,870)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable (Cost) from <i>GENERAL REVENUE FUND</i> 1	Probable (Cost) from <i>FOUNDATION SCHOOL FUND</i> 193	Probable Revenue (Loss) from <i>School Districts</i>	Probable Revenue (Loss) from <i>Counties</i>
2004	(\$235,000)	\$0	\$0	\$0
2005	(\$235,000)	\$0	(\$5,435,709)	(\$1,707,370)
2006	(\$235,000)	(\$5,435,709)	(\$271,785)	(\$1,792,739)
2007	(\$235,000)	(\$5,707,495)	(\$285,375)	(\$1,882,376)
2008	(\$235,000)	(\$5,992,870)	(\$299,643)	(\$1,976,494)

Fiscal Year	Change in Number of State Employees from FY 2003
2004	3.0
2005	3.0
2006	3.0
2007	3.0
2008	3.0

**Fiscal Analysis**

The bill would amend Sections 23.71 and 23.74 of the Tax Code relating to the appraisal of timber land.

The bill would change the definition of "net to land" (the calculated average net income that a prudent manager would earn, less expenses) as follows: 1) deleting the requirement that net income be determined by using the land's "potential" average annual growth; 2) requiring that average annual growth be expressed in tons rather than cords or board feet of wood; 3) requiring use of the mean Texas stumpage value, rather than the average stumpage value; 4) specifically listing a wider range of types of timber, including saw timber and hardwood pulpwood; 5) requiring the use of information for the East Texas region as a whole, rather than the current use of Northeast and Southeast regions; 6) changing a reference to the Soil Conservation Service because of an agency reorganization; 7) requiring the Texas Forest service to develop a cost model to determine reasonable management costs and expenses a prudent operator would incur; and 8) requiring the determination of stumpage prices based on all types of timber sales (specifically including timber deed, cutting contract and gatewood sales).

The bill would also amend the capitalization rate used in determining the appraised value of timber land to the greater of 10 percent or the interest rate specified by the Farm Credit Bank of Texas plus 2 1/2 percentage points (currently, the specified interest rate plus 2 1/2 percentage points). The proposed cap rate floor of 10 percent would take effect on December 31 of the year in which the rate is determined to be equal to or greater than 10 percent.

### **Methodology**

The Comptroller's office calculated the per acre values for the twelve classes of timberland based on proposed changes to the definition of net-to-land. These values were applied to the number of acres of timberland reported by each school district for 2002. The effect on value of combining the two regions was estimated by combining the number of plots in each region and recalculating a weighted average growth rate for each product type and site class. Value change based on using the mean average stumpage price rather than the average of the weighted and mean average was calculated by using the mean average stumpage price as reported by the Texas Forest Service. Value change based on using actual growth instead of potential growth was calculated using changes in the growth rates provided by the Texas Forest Service.

The bill would establish a minimum for the capitalization rate for calculating timber productivity values at 10 percent, or the previous year's rate, whichever was greater, but that section of the bill would not take effect until the year that the timber cap rate as calculated under current law was equal to or greater than 10 percent. This portion of the bill would have no cost during the projection period. Currently, the timber capitalization rate is set by law at the Farm Credit Bank rate plus 2.5 percent and hit an all-time low of 6.4 percent. Lower rates equate to higher property values, and vice-versa. The yearly differences in timber value between current law estimates and estimates under the proposed bill were multiplied by the appropriate County or ISD weighted average tax rates for East Texas timber counties to develop the County and ISD costs. Cities and special districts would also incur some costs in addition to the amounts shown in the table. The ISD costs shift to the state after a one-year lag because of the operation of the school funding formula.

The bill would also prohibit the Texas Forest Service from using actual expenditures by timber growers in developing timber expenses. According to the Texas Forest Service, to accurately report on management costs data the agency would have to increase its mapping capabilities. The agency estimates this would cost an additional \$235,000 a year for one GIS specialist, two GIS technicians, as well as expenses related to GIS mapping and data and a management costs model.

### **Local Government Impact**

The impact on ISD and county taxing units is shown in the above table. Passage of this bill would also reduce revenue to taxing units for cities and special districts.

**Source Agencies:** 304 Comptroller of Public Accounts, 576 Texas Forest Service

**LBB Staff:** JK, JO, SD, WP, DLBe