

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 23, 2003

TO: Honorable Teel Bivins, Chair, Senate Committee on Finance

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB1646 by Staples (Relating to the ad valorem tax appraisal of qualified timber land.), As Introduced

Estimated Two-year Net Impact to General Revenue Related Funds for SB1646, As Introduced: a negative impact of (\$470,000) through the biennium ending August 31, 2005.

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

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

This bill would amend Section 23.71 of the Tax Code, relating to the appraisal of qualified 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) by deleting the requirement that net income be determined by using the land's "potential" average annual growth. The bill would require that average annual growth be expressed in tons rather than cords or board feet of wood; and it would require the use of the mean Texas stumpage value, rather than the average stumpage value.

The bill would specifically list a wider range of types of timber, including saw timber and hardwood pulpwood; and it would require the use of information for the East Texas region as a whole, rather than the current use of Northeast and Southeast regions. In addition, the bill would require the Texas Forest Service to develop a cost model to determine reasonable management costs and expenses a prudent operator would incur; and it would require the determination of stumpage prices based on all types of timber sales (specifically including timber deed, cutting contract and gatewood sales).

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 average stumpage price rather than the average of the weighted and mean average was calculated by using the 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 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 illustrated in the above table. Passage of the bill would also reduce property tax revenue of cities and special districts.

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

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