



## TESTIMONY

### House Committee on Revenue

March 1, 2017

### Oregon Farm Bureau Opposes HB 2859

The Oregon Farm Bureau Federation (OFB) is the state's largest grassroots agriculture association, representing 7,000 farming and ranching families in Oregon. OFB's mission is to promote the educational improvement, economic opportunity, and social advancement of its members. **OFB strongly opposes HB 2859 due to the bill's negative impact on agriculture and the natural resources sector as a whole.**

#### **Farm Use Assessment and Homesite Exemption**

HB 2859 would upend Oregon's land use system. HB 2859 sunsets the farm use assessment and the farm homesite exemption in 2024. Farmland is presently assessed at its value for farm use, which is often lower than values associated with other uses. The farm value is determined based on the farmland's potential ability to generate income from farming operations.

The farm use assessment applies only to lands that are in farm use. If the land is not being farmed, it is disqualified from the assessment and additional taxes may be required. The Oregon legislature has recognized that exclusive farm use zoning "substantially limits alternatives to the use of rural land," which "justifies incentives... offered to encourage owners of rural lands to hold such lands in exclusive farm use zones." ORS 215.243(4). Amending out the farm use assessment will have the effect of dis-incentivizing farmers to hold such lands in exclusive farm use zones by subjecting them to taxation based on speculative market values in contravention of Oregon land use law. Farmers simply cannot afford to meet property tax obligations based on speculative values attributable to urban influences.

Similarly, the farm homesite exemption is in place to recognize the limitations imposed on the use of the land. Farmers are not allowed to parcel off the home and acres surrounding the home for other uses. If there is a use not associated with farming or forestry occurring on the property, then the parcel would be disqualified from the assessment. ORS 308A.259(1)(a), (b). Further, the farm homesite assessment recognizes that the reason farmers often live on their farms is to make their operations more efficient. Farmers need to be onsite 24/7 to respond to emergencies, protect against crop damage, and to minimize theft and vandalism.

The legislature summed it up pretty well when it adopted the farm use assessment, declaring *“[t]he Assembly recognizes that agriculture and related land uses contribute significantly to Oregon’s character and economy. The Legislative Assembly finds that providing the means for agriculture to continue and prosper is in the interest of all citizens of this state, who benefit directly or indirectly from agriculture production and stewardship of farmlands and ranchlands. Valuation of farm properties based upon the market data from sales for investment or other purposes not connected with bona fide farm use encourages the conversion of agriculture land to other uses. The identification of agricultural land for farm use, as provided by law, substantially limits alternative use of such land and justifies the valuation of that land based on its agricultural production capability. Therefore, it is the declared intent of the Legislative Assembly that bona fide farm properties be assessed for ad valorem property tax purposes at a value that is exclusive of values attributable to urban influences of speculative purposes.”* **OFB shares this sentiment and urges the Committee to remove Sections 59 and 60.**

### **Forestland Assessments and Homesite Exemption**

HB 2859 jeopardizes the viability of forestry operations across the state, particularly small woodland operations. Similar to how farmland is assessed to recognize farming uses, forestlands are assessed to reflect their potential to grow timber. Landowners apply to the counties where their properties are located to have their property specially designated as forestland. The application includes a signed statement indicating that the property owner will use the property to grow and harvest trees. If the landowner fails to meet the requirements of the assessment, they may be subject to a property tax based on the property’s maximum assessed value. OFB believes that appraisal of timberland for all tax purposes should be based on the ability of the land to produce timber. Removing the assessment would, as explained above, subject landowners to taxation that is based on speculative values.

In addition to amending out the entire forestland assessment for both Eastern and Western lands, HB 2859 would single out and create even more hardship for owners of small woodlands. Currently, owners of 10 to 4,999 acres of Oregon forestland have the option of either being assessed under the Eastern Private or Western Private Forestland assessments; or they can opt-in the Small Tract Forestland program. The Small Tract Forestland program is not a tax break or handout by any means, but rather operates to ensure that owners of smaller parcels who lack deep pockets can remain viable. This is accomplished under the program by assessing a value equal to 20 percent of the specially assessed forestland value that the parcel receives. When the property owner harvests his or her forestland, they pay a severance tax equal to the full special assessment. The intent of this policy reflects the fact that forests are long-term investments, and many owners of smaller forestry operations may lack adequate cash flow to pay full tax burdens prior to harvesting the property. **Sections 65, 66 and 67 of this bill threaten Oregon’s land use system and the preservation Oregon forestland.**

## **Personal Property Tax Exemptions**

HB 2859 would sunset critical personal property tax exemptions for farm, irrigation, and forestry equipment. Farmers spend more on machinery per worker than any other industry.<sup>1</sup> The high cost of equipment to farmers is further compounded by the fact that different crops require different pieces of specialty equipment. Removing the exemption for equipment could have the unintended consequence of reducing the diversity of crops in Oregon by restricting the ability to purchase and maintain the equipment necessary for production.

Moreover, the workforce mandates have resulted in an increasing number of farmers and foresters mechanizing aspects of production that were formerly done by hand labor. Farmers typically operate on thin margins, and the agricultural community (to the degree that they are able) have moved towards mechanization. And that equipment is expensive. This is an added burden that cannot be absorbed by farmers. Further, it simply does not make sense to place a fixed tax on equipment that may or may not bring a return to the owner in any given year. **OFB urges this committee to remove Sections 54, 55, 56, 57 and 58, thereby recognizing the unique economics of agriculture.**

## **Conclusion**

From a policy perspective, it is irrational to pass and then revisit property tax laws that jeopardize the financial security of family farmers and foresters every six years. Farmers, ranchers, and small woodland owners do not plan the future of their operations on six year cycle. Often these small businesses are multi-generational, and long-term planning and succession requires a degree of certainty.

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<sup>1</sup> *Source:* State of Oregon, “Tax Expenditure Report, 2015-2017,” p. 247.