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PROPERTY TAX ASSESSORS' TREATMENT OF PARCELS ENTERED INTO MINNESOTA'S RIM RESERVE PROGRAM

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**Property Tax Assessors' Treatment of Parcels Entered
into Minnesota's RIM Reserve Program**

S. Todd Lee and Steven J. Taff*

INTRODUCTION

Property tax credits, differential assessments, and special rate breaks have been used in a number of states to encourage farmland preservation and soil conservation practices. In Minnesota, this set of incentives has been augmented by a program that purchases conservation easements on certain farmlands. One of the purported benefits to landowners of selling such easements is a resultant reduction in property tax payments. In this report we examine the extent to which Minnesota property tax assessors concur with this linkage.

The Reinvest in Minnesota (RIM) program was initiated in 1986 to increase investment in the state's fish, wildlife, water, soil and other natural resources. It was also intended to decrease some undesirable consequences of cropping for environmentally sensitive lands, such as soil erosion and water quality problems. Under the RIM Reserve (which accounts for roughly half of total RIM expenditures), the state buys limited term and perpetual cropping and grazing rights easements on previously cropped farmland. The program initially focused strictly on erodible lands, but it has since been more broadly targeted to drained wetlands, riparian lands, and sensitive groundwater areas. The study reported here examined the property tax treatment of parcels enrolled in 1986 and 1987, the first two years of the program. It is a companion document to a larger study in which the authors examine the financial and land use effects of the RIM Reserve Program over the period 1986-89 (Taff and Lee, 1990).

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Limited term easements were first set at ten years (paralleling federal conservation reserve program (CRP) contracts, but were extended to 20 years for 1987 and subsequent sign-up periods. All limited term easements were originally for marginal agricultural lands (MAL), as defined in Larson et al. (Essentially, these are parcels with soils that lie in the lower quartiles of the joint distribution of soil productivity and resistance to erosion.) Perpetual easements might be for MAL, previously drained wetlands, or for "living snowfences" (windbreaks of trees planted along highways). Between 1986 and 1988, over 1,200 easements on nearly 28,000 acres were purchased by the state (Table 1).

Landowners receive an up-front easement payment, rather than the annual payments common to such programs as the CRP and Water Bank. The landowner, with state cost-sharing, must establish and maintain permanent cover or other conservation practices as prescribed by a conservation plan developed for each parcel.

PROPERTY TAX IMPLICATIONS

In Minnesota, all land is to be valued at its full market value, after which differential taxation rates are applied to various property classifications. (For example, homesteaded farms are taxed at lower rates than are those of absentee owners.) If the sale of a RIM easement is a partial property transfer (as it appears to be considered under Minnesota law), then the enrolled parcel presumably might be expected to be subject to lower property taxes.

To find out if this is indeed the case, we surveyed Minnesota county assessors, who are charged with valuing all properties for tax purposes. We wanted to find out how these assessors handled RIM Reserve parcels and if the type and term of the easement mattered. The survey's primary goal was to gain insight into the value of the RIM easements themselves, by an examination of their effect on assessors' property valuations and classifications. Such information may help the state determine how much it should pay landowners for RIM easements in the future. Another goal was to determine the effect of RIM easements on property taxes. This information is important to state and local government officials who are concerned about the Reserve's—and

TABLE 1: RIM Reserve Easements, 1986-1988

<u>Easement Type</u>	<u>Number of Easements</u>	<u>Acres</u>
Perpetual:		
Marginal Ag Land	296	6,576
Wetland Restoration	66	1,787*
Living Snowfence	7	65
Limited Term:		
10 year	737	16,712
20 year	<u>148</u>	<u>2,567</u>
	1,254	27,707

***Includes wetland, contiguous upland, and donated areas.**

other land retirement programs'—effects on property tax bases, as well as to landowners who are current or potential RIM enrollees and property taxpayers.

SURVEY PROCEDURES

RIM Reserve easement summary data was compiled for each of Minnesota's 87 counties over four enrollment periods: one each in 1986 and 1987, and two in 1988. Those counties that had nine or more (a "sizeable" number) RIM easements prior to 1988 were selected for further analysis.¹ This set of 54 counties (64% of the 84 counties with RIM easements) accounted for 89% of total RIM Reserve acreage and 91% of the total number of easements through 1988. This selection of counties helped to ensure that there were sufficient easement sales in the surveyed counties so that assessors might reasonably be expected to be familiar with the program. An easement of each of the four types, if present, was then randomly selected from each surveyed county for detailed examination. (No living snowfence easements were in the sample: only 7 were purchased during the study period).

A survey form was sent to each of the 54 selected county assessors in August 1989, along with a cover letter describing the purpose of the survey and the sampled easements to be discussed in the subsequent formal telephone interview. Information was not obtained from two counties: one office did not provide any information, and the other could not be contacted by the researchers. Of the 52 remaining counties, a telephone interview was completed with 51, and a written response was received from the other. Sample survey questions are contained in Appendix A.

¹Since easements entered into during the two 1988 sign-up periods were not formalized until 1989, assessors were not able to reassess them until 1990—a year after the survey was conducted. Thus, only easements initiated during 1986 and 1987 were examined.

SURVEY RESULTS

In this report, we distinguish between two classes of assessors: those who said they were aware of the particular RIM easements sampled for analysis in their counties and those who were not. Only the former set of assessors had actually had to decide whether to revalue the easements in question. Those who were "not aware" of sampled easements (but not necessarily of other RIM easements) had had no opportunity to carry out their stated policies. All assessors were asked about their policy stance regarding RIM easements.

Their responses are presented according to their policies, not their actions, in Table 2. Assessors appear to clearly distinguish between limited term and perpetual easements: all but two would leave the valuation of limited term parcels unchanged, while almost half would change the valuation of perpetual parcels.

TABLE 2: Policy Stance of Assessors - Summary

<u>Easement Type</u>	<u>Policy on Valuation</u>	
	<u>Change</u>	<u>Not Change</u>
Limited Term	2	48
Perpetual	19	22

Table 3 presents the results in more detail. Fifty assessors had a ten year easement in their county. The decision whether to change the valuation does not appear to be dependent on the assessors' knowledge of its existence. Eighteen of the 50 were aware of a limited term RIM easement: only one had changed the parcel's value. Only one of the 32 who were not aware of their easements said the valuation ought to be changed.

Table 3: Number of Assessors by Easement Type and Specific Knowledge of Easement

<u>Action</u>	<u>Easement Type</u>			
	<u>Limited</u>		<u>Perpetual</u>	
	<u>10 yr</u>	<u>20 yr</u>	<u>MAL</u>	<u>Wetland</u>
Change Variations				
Actual	1	0	10	6
Hypothetical	1	1	9	3
Not Change Valuation				
Actual	17	5	10	1
Hypothetical	<u>31</u>	<u>16</u>	<u>12</u>	<u>4</u>
Total	50	22	41	14

Note: "Actual" are those assessors who were aware of the surveyed easement. "Hypothetical" are those assessors who were not aware of the surveyed easement but stated a policy anyway.

Twenty-two assessors had 20 year easements, but only one would change the valuation of such parcels. Only five out of the 22 assessors were aware of the surveyed 20-year RIM easement, and none of them had changed the parcel's valuation. Only one of 17 that were not aware of the surveyed easement would change the valuation.

Forty-one assessors had perpetual marginal agricultural lands (MAL) easements in their county: nineteen said they would decrease the valuation of those parcels. Again, the decision whether to change the valuation does not appear to be dependent upon individual assessor's knowledge of surveyed easements. Ten of the 20 assessors who were aware of the MAL easement had changed the valuation of the parcel. Nine of the 21 assessors who were not aware of the surveyed easement said they would have changed the valuation of the parcel. Nine of the 14 assessors who had a wetland easement said they would change the valuation of such properties of the 7 who were aware of the easements, 6 had actually changed the valuation.

ASSESSOR POLICY JUSTIFICATION

Table 4 summarizes the reasons assessors gave for changing or not changing valuations. As discussed earlier, most treated both the 10 and 20 year limited term easements in the same manner as they did the perpetual Marginal Ag Land and Wetland Restoration easements. Each gave the same reason for changing or not changing the valuation of both terms of limited term easements and both types perpetual easements. Several gave more than one reason in support of their decisions.

The two assessors who said they would lower the valuation of parcels with limited term easements argued that the easements restricted land use, thereby reducing potential property income. In support of changing the valuation on parcels with perpetual easements, 12 of the 18 who did so said that easements limit land use and/or decrease income from the property. Seven said they changed the valuation because of a Minnesota Department of Revenue directive

TABLE 4: Reasons Given by Assessors for Particular Revaluation Policy Stance

Action	Type of Easement	Number of Assessors Giving A Reason	Reason	Number of Assessors Giving This Reason
Change Valuation	Limited Term (n=2)	2	Limits land use or decreases value	2
	Perpetual (n=19)	18	Limits land use or decreases value	12
Not Change Valuation	Limited Term (n=48)	46	Department of revenue directive	7
			Waiting for market indication	17
			Rim payment same as rent/lease	15
			Rim income at or above rent	9
			Department of revenue directive	5
			Waiting to see physical changes	5
			Highest and best use not changed	5
			Waiting to see what other assessors do	2
			Reasons assessors agree no change	2
			RIM land has recreational value	1
			Not fair to CRP enrollees	1

(continued)

TABLE 4 (continued)

Action	Type of Easement	Number of Assessors Giving a Reason	Reason	Number of Assessors Per Reason
	Perpetual (n=22)	21	Waiting for market indication	12
			Interest income or payment at or above market level	6
			Waiting to see physical changes	5
			Land already at low valuation	4
			Waiting to see what other assessors do	3
			RIM land has recreational value	2

(Appendix B) that suggested assessors place perpetual RIM land at a value representative of what the land will eventually become when left unattended.

Thirty-seven percent of the 46 assessors whose stated policy was to not change the values of parcels with limited term easements argued that they did not have enough market evidence to justify a change in valuation and did not wish to speculate on how limited term easements might affect market values. If the market should at some future date indicate that these parcels should be valued differently than otherwise comparable parcels, these assessors said, they would adjust the valuations accordingly.

Many stated they did not change the valuation of limited term easements because of the nature or the amount of the RIM payments. Fifteen said that the payment is essentially the same as land rental or lease payments, which do not shift property valuations. Nine felt that the income from RIM payments is at or above typical agricultural rents for similar parcels, and one assessor argued that RIM enrollees should not receive a double subsidy—a market level rental payment plus a tax break.

Eleven percent of those who would not change the valuation of limited term easements referred to the Minnesota Department of Revenue directive noted above, which recommended essentially that position. Eleven percent said they might re-value if they see physical changes, such as large trees or brush that cannot easily be plowed under. Another 11 percent of the assessors said that in their view, the highest and best use of the land had not changed, regardless of the installed cover on the RIM parcel. Two felt that the land was still "tillable" (presumably not the restored wetland!) and thus not any less valuable.

Two assessors did not change the valuation of parcels with limited term easements because they felt the parcels were already assessed below the market value. Two others said their administrative region had decided not to change the value of RIM lands. One assessor argued that RIM land has additional recreational value. Finally, one assessor stated that RIM parcels should not be down-valued because that would not be fair to CRP enrollees.

Assessors gave six reasons for not changing the valuations of parcels with perpetual easements. Fifty-seven percent said they were waiting for a market indication to signal that they needed to change valuations. Twenty-nine percent said they would not change valuations because the up-front easement payments were at or above land sales prices on comparable properties. Other assessors believed the interest income that could be earned from a RIM payment would be as large as market rental payments.

Twenty-four percent stated they would change property valuations only after they could see physical changes on the land. Here again, the assessors wanted to see trees or brush that cannot be easily plowed under. Nineteen percent said they did not change valuations because the land was already classified as pasture or low "C" grade. Fourteen percent said they will wait to see what their colleagues in nearby counties do with RIM lands.

Seven said RIM land had recreational value, so, the market value of the parcels did decrease because of easement restrictions. Four said that certain parcels' values might even increase in value because of increased recreation amenities. Two who had decreased the valuation of RIM parcels said they might reverse this decision in the future if recreational potential develops. Finally, three assessors did not decrease the value of RIM lands because they did not want to diminish their county's tax base.

Table 4 suggests that only a few assessors strongly believe that perpetual RIM easements do not change the value of a parcel. Most either believe a perpetual easement decreases a parcel's market value, or they are waiting for market evidence or physical changes before they change their valuations. Only six assessors argued strongly that RIM easements do not change underlying values or should not result in reduced valuations, because they felt that the RIM payment was as high as the full value of the property.

RIM EASEMENT VALUATION

Theoretically, the value of a parcel of land is determined by the present value of future economic rents arising from the parcel or its use in some productive activity. A RIM easement restricts the land owner from engaging in certain economic activities for a period of time, so the value of a parcel with a RIM easement should be discounted by the present value of the foregone economic rents the land owner would have received without the restrictions. If a RIM parcel's previous use was farming (and the land does not have a large recreational value), the value of the property once placed under easement is presumably lower than it was. One might therefore view the lump-sum RIM payment as an attempt to match the present value of this foregone economic rent.

If the land on which there is a RIM easement is sold, the sale price should be the difference between the pre-RIM value and the RIM payment level. Since property tax assessments are, in Minnesota, supposed to reflect market values, RIM parcels should be down-valued by the amount of foregone future economic rent—which may or may not be approximated by the RIM payment as estimated by the assessor.

Thirty-eight of the 52 assessors surveyed said they did not know the particular RIM payment levels for the easements in question. However, several stated they specifically did not change the valuation of RIM parcels because they felt the RIM payment level was "high".

The actual effect of RIM on property taxes is a little more clear. The survey suggests that limited term easements have only a small effect on property taxes. Since few assessors change the valuation of such easements, property taxes assessed on the parcels are not significantly affected.

Perpetual easements, on the other hand, have a potentially substantial effect on property tax assessments. Nearly half of the surveyed assessors state that it is their policy to place perpetual RIM parcels in a lower-valued land classification. However, many of those assessors had not been informed of the RIM easements that the survey sampled, and thus had not actually lowered the

valuation. As a result, less than 25% of the sampled perpetual easements had had their valuations lowered.

The actual decrease in tax assessments also depends on the pre-RIM and post-RIM classification of the parcel. In Minnesota, county assessors are responsible for both estimating the market value of parcels and classifying them according to how they are used. Land that is classified as agricultural is also usually graded to reflect its productivity. For example, if an assessor decreases the valuation of a parcel by \$200 per acre, that decrease may correspond with a classification change from grade "C" tillable land to pasture. Since the bulk of RIM easements are on "marginal" land, one would suspect that the pre-RIM classification would have been lower in value than most agricultural land in the vicinity. The post-RIM classification selected by the surveyed assessors is usually pasture with some meadow, woodlot, and waste. Valuations were reduced by \$327 (63.8%) per acre on average (Table 5). However, the range is quite large. One classification change from grade "A" tillable to pasture resulted in a reduction from \$845 to \$110 per acre. Other parcels had been already classified at the level where RIM parcels would be placed, so there was no change in valuation. It would appear that the more that the RIM Reserve targets truly "marginal" land, the lower will be its property tax effects.

DISCUSSION

Only thirty-five of the 52 assessors surveyed had been asked by potential RIM enrollees whether property tax assessments would be affected by easement sale, and only half the assessors had been informed of the actual sale of the RIM easements sampled here. By not alerting assessors to the fact that they have a RIM easement, many RIM enrollees are not taking advantage of possible tax reductions. This may be due to a lack of knowledge on behalf of enrollees, or because enrollees considered potential tax savings to be too small to be worth the effort.

TABLE 5: Rim Parcel Revaluation

	Total	Limited term	Perpetual
Average % change	-63.8	-66.3	-63.6
Average difference	\$327	\$239	\$337

**Note: Table based on value data from 15 assessors—3 limited term
and 22 perpetual easements.**

Few assessors automatically receive information about which land owners in their county have enrolled in RIM. Some hear from their local Soil and Water Conservation District office, others from the county courthouse, and others from enrollees themselves. This lack of systematic referral adds to confusion over how property valuations, and thus taxes, are affected.

Although the Minnesota Department of Revenue sent a directive to all county assessors on valuing RIM parcels, only eight out of 52 surveyed assessors referenced the directive. Indeed, two said they had received no guidance whatsoever from the department. About 44% were not following the department's recommendations to down-value perpetual RIM easement parcels.

Five assessors remarked that they are worried that RIM enrollees may split off an enrolled parcel and not pay taxes on it. These assessors think that the RIM payment level is sufficiently high that enrollees may consider themselves fully compensated for their land. To forestall such attempts, the 1987 Minnesota Legislature made nonpayment of property taxes a violation of the easement itself. Either some assessors were unaware of this program modification, or they did not think it will be effective.

CONCLUSION

The survey reported here was intended to provide information about the effect of the RIM Reserve program of property valuations for tax purposes. It was found that the program's limited term easements have little effect on property taxes, while perpetual easements may have a larger effect, depending upon the policy stance of the appropriate county assessor. Because the RIM Reserve has such limited geographic coverage (especially in perpetual easements, those most likely to affect property tax collections), it is likely to show little aggregate tax consequence at either the county or state levels. As market sales evidence becomes available in the future, it be possible for both assessors and researchers to determine the specific long-term effect of RIM easements on property values and property taxes.

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Appendix A

Assessor Valuation Of Parcels With RIM Easements

To Be Completed By Interviewer

Date of interview: _____
Assessor's Name: _____
County: _____
Land owner and location of RIM easement: _____

RIM easement number: _____

Total number of acres: _____ Number of acres enrolled in
RIM: _____

Duration of RIM easement: _____ perpetual _____ limited term
(_____ years)

Type of RIM easement: _____

Survey Questions

When was your most recent valuation of the parcel?

Did you know the parcel had a RIM easement at that time?

Previous land use: _____

Previous classification of land for agricultural purposes: _____

Post-RIM classification of land for agricultural purposes: _____

Did the RIM easement _____ increase or _____ decrease your
valuation (market value) of the parcel?
By how much and why?

Did you know the RIM payment level when you valued the parcel?
If yes, did that knowledge affect your valuation of the parcel?
To what extent and why?

Has all or a portion of the parcel been sold since a RIM
easement was placed on it? (specify)
If yes, has the sale affected your valuation of the parcel?

If you were to value the RIM parcel again today, would your
valuation or valuation methodology be different? (specify)

General

Have potential RIM enrollees asked you if their property taxes
would increase or decrease before they chose to enroll in the
RIM program? _____ yes _____ no
If yes, what was your response?

Have you changed your valuation methods or procedures regarding
RIM parcels?
If yes, how have they changed and why?



STATE OF MINNESOTA

DEPARTMENT OF REVENUE

Mail Station 3340
St. Paul, MN 55146-3340

December 5, 1988

TO: ALL COUNTY ASSESSORS

RE: VALUATION AND CLASSIFICATION OF ALL CRP AND RIM LANDS

During the past few months we have received a number of inquiries from county assessors questioning how properties enrolled in CRP and RIM programs should be valued. There are two distinctly different types of conservation reserve programs, perpetual and temporary. Lands enrolled in perpetual easements are only found in the RIM program and make up a very small percentage of total enrolled lands. All CRP contracts are temporary easements for 10-year periods.

Perpetual easements are restrictions which permanently attach to the property. Once a perpetual easement is entered into, it becomes an irrevocable covenant on that property and cannot be removed. All RIM easements which are not perpetual are temporary easements. As the name implies, temporary easements are temporary restrictions on the land which run for either 10 or 20 year periods.

VALUATION OF CRP AND RIM LANDS

Because of the various types of farm programs, we are recommending that they be valued differently based upon the type of easement.

TEMPORARY EASEMENTS. Because of the temporary nature of these easements, we are unable to predict what, if any, impact they will have on land values. For the present we are recommending that you maintain the same values on CRP and RIM lands enrolled under temporary easements that you have on similar properties not subject to the easements. As always, the final answer on how these properties should be valued will be evidenced by market activities.

PERPETUAL EASEMENTS. Once a perpetual easement has been entered into, the property is left to revert to its natural state. Because of the permanence of this agreement, we are of the opinion that a valuation adjustment is warranted. Land should always be valued at the highest and best use to which it may be legally put. Because the legal uses of the land have been greatly diminished, we are recommending that you adjust the value of all lands enrolled in a perpetual easement to a value representative of what the land will eventually become when left unattended. In other words, if a property that is presently valued as tillable farm land is enrolled in a perpetual easement that prohibits farming, we are of the opinion that it would be appropriate to change the value of the land to the level of wild lands in their natural state.

County Assessors
December 5, 1988
Page Two

CLASSIFICATION OF CRP AND RIM LANDS

We are recommending that you continue to classify all lands enrolled in CRP and RIM programs as agricultural. It is our opinion that the legislature's intent was to include all lands enrolled in state or federal farm programs within the definition of agricultural land. We will be seeking additional clarification on this issue during the 1989 legislative session.

Because the question of how CRP and RIM lands should be valued is an ongoing one, we are asking for your assistance in making us aware of what is happening in the market. If any sales take place in your county that you feel are representative of CRP and RIM land sales, please mail the information to this office. The information should contain the sale price including financing terms, the number of acres included (both in and out of the CRP or RIM program), recent sales history of the property if it exists and information on the selling price of similar properties. We will also require information on the type of easement that was entered into, terms of payment for that easement, whether the easement is temporary or permanent and what type of restrictions have been placed upon the property.

If you have any additional questions or concerns on the valuation or classification of CRP and RIM lands, please feel free to contact us.

Best regards,



MICHAEL P. WANDMACHER, Director
Local Government Services Division

(612) 642-0477

MPW:JFH:vh