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## EVALUATION OF FARMLAND USE-VALUE ASSESSMENT IN NEW YORK

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**Abstract.** This paper examines agricultural use-value legislation in light of statewide reassessment in New York. Historically, farm real estate has been underassessed relative to other classes of property. Thus, statewide reassessment at full value would significantly increase farmland property taxes. These increases could be more than offset by widespread application of use-value assessment. In 1979, the tax reductions, when compared with full-value assessment, would be about \$8 per acre. The tax bases of some rural communities may be reduced significantly by use-value assessment.

### INTRODUCTION

Use-value assessment for farmland in New York was first authorized in 1971, as part of the Agricultural Districts Legislation (L. 1971, C. 479). Despite its eight year history, little is known about the impact of use-value assessment throughout the State. Some aggregate statistics, however, suggest that the impact has not been large. In 1975, only 2 percent, or approximately 187,000 acres, of New York's commercial farmland was assessed at use value (King).<sup>1</sup> The property tax bill incurred by all New York farmers increased by an estimated \$16.5 million (20 percent) between 1974 and 1976 (USDA, 1977) but property taxes have remained approximately 6 percent of total agricultural production expenses during these years and throughout the 1970's. The limited number of applications for use-value assessment in New York stems from both the Law's eligibility requirements and the procedures used by local assessing officers to administer the local property tax roll.

The purpose of this paper is to estimate the impact of use-value assessment on farm property tax burdens. Emphasis is given to the case where the practice of assessment at some fraction of full value is eliminated on all classes of property. This focus is based on the assumption that full-value assessment will eventually be achieved in most of New York's taxing jurisdictions.<sup>2</sup> Particular attention is placed on the differential impacts in urban and rural areas. To avoid the problems associated with forecasting future land value changes, the impacts are estimated for the 1970's as though revaluation occurred in 1973. Other provisions of the Agricultural Districts Legislation that may affect the attractiveness of use-value assessment are also discussed.

To provide needed background, the remainder of the paper begins with a summary of the Agricultural Districts Legislation. A discussion of the significance of the eligibility requirements and the impact of revaluation is followed by a discussion of how use values of farmland in New York are estimated. The discussion of the

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<sup>1</sup>In 1975, there was a total of 2,602 individual exemptions involved. Although acreage figures are not available for later years, the number of individual exemptions increased to 3,162 and to 3,989 in 1976 and 1977, respectively (King).

<sup>2</sup>Despite the fact that fractional assessment practices have been used for many years, the New York Court of Appeals recently ruled that the New York Real Property Tax Law requires assessment at full (market) value. Because this decision binds lower courts to uphold challenges to current assessment practices, reassessment at full value is now underway or being considered by many taxing jurisdictions across the state (Mason and Lutz).

implications of use-value assessment on farm property tax burdens is followed by a summary and conclusions.

### AGRICULTURAL DISTRICTS LAW IN NEW YORK

Use-value assessment is but one of the provisions of New York's Agricultural Districts Law (L. 1971, C. 479). Under this Law, landowners may petition county legislatures to create an agricultural district—a geographic area of 500 or more acres where agricultural land use is recognized as a priority. Proposals made by landowners are reviewed by agencies at both the county and state levels and are discussed at public hearings prior to ratification by the county legislative body. An agricultural district is reviewed by local and state agencies after eight years.

The Law specifies that landowners situated within the boundaries of an agricultural district have the option of applying for a use-value farmland assessment. In addition to any property tax reductions received as a result of use-value assessment, other provisions of the law also enhance the attractiveness of agriculture within the district boundary. These provisions include:

- (a) Local governments are prohibited from enacting laws or ordinances which unreasonably restrict or regulate farm structures or farming practices.
- (b) The policy of all state agencies should be to encourage the maintenance of viable farming.
- (c) Public agencies that intend to acquire through eminent domain 10 or more acres from any one farm or 100 or more acres in a district or advance funds for construction of nonfarm buildings and facilities must file notices of intent, receive state reviews and hold public hearings.
- (d) No town jurisdiction may impose benefit or special ad valorem levies on land used primarily for agricultural production.

If an owner receives a use-value assessment and later decides to convert districted farmland to a nonagricultural use, the tax benefits are recovered by the local taxing jurisdiction. A rollback tax (without interest or penalty) is applicable for each of the preceding five years or the number of years during which use-value assessments were applied, whichever is less. Lands in the tax parcel remaining in agricultural use continue to be eligible for use-value assessments. As of October 1979, 401 districts encompassing 5.8 million acres have been created in New York (NYS Agricultural Resources Commission). Districts are found in 49 of New York's 57 counties outside New York City.

Owners of land situated outside the boundaries of an agricultural district also have the option of applying for a use-value farmland assessment. However, they must execute and annually renew an 8-year commitment to use the land exclusively for agricultural production. If any portion of these lands is converted to a nonagricultural use during the 8-year period, *all* land included in the original commitment becomes ineligible for assessment at use value. Moreover, the owners are liable for a monetary penalty of two times the taxes assessed at market value in the year following the conversion for the entire land parcel.

Regardless of the location of farmland in relation to the boundary of an agricultural district, eligibility for use-value assessment is confined to owners of 10 or more acres which

Table 1  
Patterns of Ownership of Land in Commercial Farms for New York, 1974<sup>a</sup>

Value of Farm Products Sold	Total		Owned and Operated		Rented from Others	
	Acres	Percent	Acres	Percent	Acres	Percent
Under \$10,000	1,034,261	12.5	897,208	10.8	137,053	1.7
\$10,000 or more	7,250,791	87.5	5,476,739	66.1	1,774,052	21.4
Total	8,285,052	100.0	6,373,947	76.9	1,911,105	23.1

Source: U.S. Department of Commerce.

<sup>a</sup>A commercial farm has production valued at \$2,500 or more during the Census year.

generate at least \$10,000 in yearly average gross sales. Owners must apply for the use-value assessment each year. Local assessing officers are required to use gross sales during the preceding two years to make a determination of owner eligibility. Farm owner-operators may use both crop and livestock receipts to meet the gross sales requirement. They may also use the value of production on any land rented from others to meet the requirement. Landlords, however, must meet the \$10,000 sales requirement only on the basis of the value of crops produced on their land. Suppose, for example, that an acre of land produces livestock feed valued at \$200 which in turn supports \$400 worth of milk production. If a farmer owned this land, the entire \$400 could be counted as the value of agricultural receipts. On the other hand, if the farmer is renting the land, the landlord cannot count any portion of the tenant's milk production receipts in his computation of gross farm receipts. Thus, given the same size of land parcel, a landlord finds it more difficult to qualify for use-value assessment than does an owner-operator.

### ELIGIBILITY REQUIREMENTS AND PROPERTY TAX ADMINISTRATION

The factors that affect the decisions of farmland owners to apply for use-value assessment include personal and financial situations facing each owner, local economic conditions, knowledge of one's eligibility, the perceived or realized economic benefits, and the institutional constraints placed on future uses. It is beyond the scope of this paper to examine the personal and financial situations of individual landowners. However, it is possible to examine the potential effects of eligibility criteria and the constraints placed on future land use. The potential future tax benefits can be examined in light of the on-going revaluation and current procedures for establishing agricultural use values. Because use-value assessment can potentially reduce the value of taxable property on local tax rolls, one must also be concerned about changes in tax rates as the number of applications for use-value assessment increases.

#### Eligibility Requirements

New York has the nation's most stringent eligibility requirements on its use-value assessment provisions (Gloudemans). The eligibility requirements and obligations incurred by farmland owners who choose to apply for use-value assessment under the New York law make clear the legislature's intent to confine any property tax relief to owners who operate larger commercial farms and to nonfarmers who rent large farmland parcels to others. Owners within the boundaries of agricultural districts also incur tax rollbacks rather than monetary penalties for converting their land to nonagricultural uses. The fact that penalties are associated with premature conversion of land assessed at use value but not in a district reduces the attractiveness of the provision for many owners.

The general effect of the eligibility requirements upon participation is determined from data in the 1974 Census of Agriculture. The 10-acre requirement applied to New York's 8.3 million acres in commercial farms does not restrict applications for use-value assessment because only 4,800 acres are on places with fewer than 10 acres (U.S. Dept. of Commerce).

The gross sales requirement, however, is much more restrictive. Just under 900,000 acres (11 percent of all farmland) are owned and operated by farmers who generate less than \$10,000 in farm sales (Table 1). Land they rent from others accounts for 2 percent of all farmland. Thus, these "small" farms account for approximately 13 percent of all farmland in the state. The remaining 87 percent of land in farms is on units with sales of \$10,000 or more but larger commercial farmers depend heavily upon rented land. It is unlikely that all of these landlords can qualify for use-value assessment. Many rented parcels are small and the value of crops grown will not amount to \$10,000 each year. A study of farmland rentals in a single New York county has shown that 37 commercial farmers rented land from 126 separate landlords (Bryant). Only 40 percent of the rented acreage in Bryant's study generated crop production for individual owners that could be valued at \$10,000 or more. The remaining parcels were too small to qualify the owner for property tax relief. These data, plus the statistics on small farms mentioned above, imply that the Law effectively limits the application of use-value assessment to approximately 75 percent of New York's commercially-farmed land. Using this percentage, about 6.2 million acres will qualify for use-value assessment. Approximately 36 percent of this total is located in New York's SMSA counties (Table 2).

#### Revaluation

Given the current administration of the property tax, many farmland owners simply have no incentive to exercise their options for a use-value assessment. This stems from a history of assessment at some fraction of full value and outdated local tax rolls. Where inequities exist among classes of property, revaluation to full or market values will shift tax burdens from owners of one class of property to another. When tax burdens are shifted to farmland, owners who are reassessed at values exceeding use value can be expected to apply for a use-value exemption on their farmland.

These reassessments, coupled with the eligibility requirements discussed earlier, will be the predominant influences on the magnitude and geographic location of future tax reductions farmland owners realize under the New York law. Revaluation is a slow, continuous process; benefits will depend upon the timing of local efforts to revalue the assessment roll.

Although revaluation will take place on a piecemeal basis, a Governor's Task Force has estimated the aggregate effect of reassessment on the taxes borne by owners of farm property (Table 3). Had reassessment been completed in 1973 and tax levies held

**Table 2**  
Distribution of Commercial Farmland in New York, 1974

County Groups <sup>a</sup>	Land in	Land Eligible
	Commercial Farms <sup>b</sup>	for Use-Value Assessment <sup>c</sup>
	Acres	Acres
SMSA Counties	3,046,472	2,237,546
NonSMSA Counties		
High Population	2,114,520	1,606,282
Low Population	3,123,968	2,342,167
State Total <sup>d</sup>	8,284,960	6,185,995

<sup>a</sup>Counties in Standard Metropolitan Statistical Areas (SMSA) are the 26 counties which comprise the Albany-Schenectady-Troy, Binghamton, Buffalo, Elmira, Nassau-Suffolk, New York, excluding the five counties that make up New York City, Poughkeepsie, Rochester, Syracuse and Utica-Rome SMSA's; high population counties are the 12 nonSMSA counties with an average town population in 1970 of 2,500 or more; the 19 non-SMSA counties with an average town population of under 2,500 in 1970 are classified as low population counties. The counties included in each of the groups are listed by the Governor's Task Force.

<sup>b</sup>This figure includes land in farms with sales valued at \$2,500 or more as reported in the 1974 Census of Agriculture (U.S. Dept. of Commerce).

<sup>c</sup>This is an estimate of the acreage of commercial farmland eligible for use-value assessment under the Agricultural Districts Legislation (L. 1971, C. 479). Eligibility is limited to owners of 10 acres or more who realize average annual gross receipts in excess of \$10,000. Data on eligible land were not readily available. Therefore to estimate this figure, land in farms with sales valued at \$10,000 or more was included, as was 40% of the land these farm operators rented from others (U.S. Dept. of Commerce). It was assumed that only 40% of land rented from others would be in parcels of sufficient size to meet the eligibility requirements (Bryant).

<sup>d</sup>Excludes commercial farms in cities.

constant, there would have been a net tax shift of \$106 million to farm and residential property (assuming no use-value exemption). Owners of commercial and industrial property as a class would have received tax reductions of \$103 million. This tax shift amounted to a 28 percent increase for farm property. The tax shift incurred by owners of residential property is far larger in absolute dollar terms, but amounts to only 5 percent of the taxes paid before revaluation. For our purposes, the differential tax shifts on farm property among rural and urban regions is also important. The tax shift is highest in the "high population" nonSMSA counties (34 percent).

### ESTIMATION OF FARMLAND USE VALUES

The tax increases stemming from revaluation can be offset by more widespread assessment at use value. The extent to which this is possible depends upon the relationship between use value and market value of all eligible farmland in the state. To make this comparison, it was necessary to derive aggregate agricultural use values for New York's farmland. The estimates were obtained by combining use values, as determined by the state, with available data on farmland use and soil quality.

### Methodology

The New York State Board of Equalization and Assessment (E&A) is charged with the responsibility of setting use values (called "ceiling factors"). These estimates are based on the market or farmer-to-farmer sales approach to use-value assessment (McCord). Use-value estimates for 14 farmland categories are determined annually for each county. The categories distinguish between land use (e.g., cropland vs. pasture) and divide cropland

into 4 classes—E, A, B and C—based upon expected crop yield.<sup>3</sup> Separate categories are distinguished for muck and cropland suitable for vines and the tree fruits. These detailed data enable one to derive a composite use value for farmland for each county by combining the per acre use values for the farmland categories with 1974 commercial farm acreage (U.S. Dept. of Commerce).

For each county, commercial farm acreages in E&A's pasture and support land categories were assumed to be equal to land used only for pasture and other land in farms, respectively.<sup>4</sup> Because Census data provide no direct information on land quality, the 1967 Conservation Needs Inventory (USDA, 1972) was used to apportion the Census aggregate "total cropland" into E&A quality classes E, A, B and C. The inventory contains expanded sample data which distributes acreage in tillage rotation by Soil Conservation Service (SCS) land capability classes; soils are assigned to one of 8 capability classes based on limitations of the soils, the risk of damage when they are used and the way they respond to management. To estimate the acreage in E&A's quality classes, some simplifying assumptions had to be made. It was assumed that: class "E" is equivalent to class I soils; class "A" is equivalent to class II soils; class "B" is equivalent to class III soils; and that "C" is equivalent to classes IV-VIII soils. The proportion of "total cropland" in each of E&A's quality classes was assumed to be the same as the proportion of land in the corresponding SCS capability classes that was in tillage rotation in 1967.<sup>5</sup> Although this land distribution has undoubtedly changed slightly over the past 12 years, the same proportions were assumed to apply throughout the analysis below.

Once these proportions of total commercial farmland in each of E&A's categories were determined, the use value of an average, or

<sup>3</sup>E-cropland is suited for production of high value vegetable crops; A-cropland is capable of yielding over 100 bushels of corn per acre; B-cropland is assumed to be most commonly used for corn silage, (15 tons or more per acre), hay (2 tons per acre) and small grains; and C-cropland is used mostly for dairying, with a corn silage yield of fewer than 15 tons per acre (McCord).

<sup>4</sup>This procedure presented a definitional problem because woodland is omitted from E&A's value data but constitutes a component of Census land in farms. Woodland was assigned a use value of \$100 per acre in 1979, a figure corresponding approximately to the average value in E&A's woodland appraisal data (McCord).

<sup>5</sup>There are two possible problems associated with these procedures. First, E&A's cropland classification scheme is based on land productivity as reflected in potential crop yields. Because SCS land capability classes are based primarily on such hazards to use as soil erosion potential, they only provide a general indication of land productivity. The yields of crops typically grown in New York can vary among soils assigned to a given SCS capability class. Thus, one cannot expect there to be a one-to-one correspondence between the SCS classes and the productivity classes which they are assigned. Second, this problem is compounded somewhat by the fact that the allocation of SCS classes to E, A, B and C productivity classes was necessarily somewhat arbitrary.

A preferable procedure would have been to rely on yield data from modern soil surveys to allocate farmland to E, A, B and C productivity classes, but these surveys are not available for a number of counties in New York. However, at least two states, Pennsylvania (Norton and Carroll) and Virginia (State Land Evaluation Committee) use SCS capability classes as the basis for use-value assessment. Norton and Carroll indicate that in three counties in Pennsylvania the use value of SCS class I land is 50 percent higher than class II land. According to the procedures used here, class I land was effectively valued on average at between 50 and 100 percent higher than class II land. While these results may not be directly comparable because of the differences in soils between the two states, it does suggest the assumptions made to facilitate this study are not inconsistent with procedures used elsewhere.

On the basis of these procedures, less than 10 percent of the cropland in the state was classified as E-cropland. Between 30 and 40 percent of the cropland was classified in each of the cropland classes A and B. Based on informal discussions with people knowledgeable about New York soils, we suspect that this allocation may slightly overestimate the use values of cropland in New York. If this is the case, one would expect the analysis later in the paper to underestimate the tax advantage attributable to use-value assessment.

Table 3  
Estimated Property Taxes by Class of Property for New York, 1973

Property Class	Current Tax Levy	After Reassessment		
		Value of Property	Tax Levy	Tax Shift
—Million Dollars—				
Farm	89.5	4,933.0	114.2	+24.7
SMSA Counties <sup>a</sup>	44.8	2,387.5	57.2	+12.4
NonSMSA Counties <sup>a</sup>				
High Population	19.5	1,130.6	26.2	+6.7
Low Population	25.2	1,414.9	30.8	+5.6
Residential	1,787.2	59,514.3	1,868.7	+81.5
Commercial-Industrial <sup>b</sup>	640.7	16,999.7	537.4	-103.3
All Other <sup>c</sup>	419.2	14,561.9	416.3	-2.9
Total <sup>d</sup>	2,936.6	96,008.9	2,936.6	0

Source: Governor's Task Force.

<sup>a</sup>See Table 2.

<sup>b</sup>Includes apartments.

<sup>c</sup>Includes vacant property, utilities, railroads, special franchises and state-owned property.

composite acre was estimated for three separate years (1973, 1976 and 1979). These estimates are based on a weighted average of the per acre use values established by E&A for these three years (New York State Board of Equalization and Assessment). A composite use value per acre was estimated for 56 of New York's counties.<sup>6</sup>

In order to use this information as the basis for examining the impact of use-value assessment on farm tax burdens, it is necessary to compare these use-value estimates with the market value of farmland. However, published data on the market value of farm real estate do not include separate values of land and land improvements at the county level. Because improvements do not qualify for use-value assessment, it was necessary to assume that the proportion of real estate value due to improvements in each of the three years was constant across the state in any given year. This proportion decreased slightly from 1973 to 1979 (USDA, 1978).

#### Discussion

These estimates of the values of farm real estate are summarized for three groups of counties in Table 4. Several important relationships are evident from this table. First, the average annual increase in the per acre market value of farm real estate (including land and improvements) was much higher (7.9 percent) between 1973 and 1976 than it has been in the past three years (4.7 percent). This same trend is found in the average annual change in the market value of land over these two periods. The difference is not quite as large, because the value of improvements as a percent of total value of real estate has been falling throughout the 1970's.

The market and use values of farm real estate in New York are generally higher in the more urban counties. These higher values undoubtedly reflect the influence of pressures on the demand for agricultural land for nonagricultural purposes. Another factor is that some of the most productive farmland is found in urban counties (Otte). For example, 46 percent of all cropland in SMSA counties is in SCS land capability classes I and II (USDA, 1972). The corresponding fractions of higher quality cropland are 32 and 41 percent, respectively for "high" and "low" population nonSMSA counties.

<sup>d</sup>These are 1973-74 tax levies based on 1973 market survey information and 1974 tax rolls. The data exclude taxes and property values in New York and other cities in the state. Because there is an insignificant amount of agricultural property in these cities, they do not enter into the analysis.

From the standpoint of farm property tax liabilities, the relationships between the market and use value of land in the three years are most important. In 1973 the market value of land was estimated at \$379 per acre. Average use value in that year was estimated at \$140 per acre or 37 percent of market value. In 1976, this percentage remained unchanged, but by 1979, use value of farmland as estimated by E&A increased to 42 percent of market value. As one would expect, use values are closer to market values in the more rural counties than in the SMSA counties. For the state, farm property tax reductions due to use-value assessment are being decreased slightly over time because use values, as determined by E&A have risen faster than market values. The potential tax reductions remain the largest in urban counties.

#### IMPLICATIONS FOR FARM PROPERTY TAXES

The relationship between the market values and use values of farmland on a per acre basis provides an initial indication of the tax shifts associated with use-value assessment. However, a more accurate assessment can be made by actually estimating the aggregate changes in tax levies across the state. That is, one effect of use-value assessment is to reduce the value of property on the tax rolls. In order to finance the same level of services, local governments will be forced to increase tax rates on the remaining taxable property. Any measure of the tax impact must also include this effect on tax rates.

To provide a consistent basis for comparison, the tax shifts associated with use-value assessment are calculated relative to property tax levies assuming all taxing jurisdictions assess property at market value. There are two reasons to this strategy. First, it appears that taxing jurisdictions across New York are gradually adopting full-value assessment procedures. Second, this allows one to compare the tax shifts associated with use-value exemption with the impact of revaluation (Table 3). Because it was impossible to estimate the percentage of eligible farmland owners that might participate in the program after revaluation has taken place, it is assumed that all eligible land was assessed at use value. This is an extreme case, but one that is useful for purposes of comparison.

The tax liabilities implied by these assumptions are in Table 5. As stated earlier, had statewide revaluation occurred in 1973, the

<sup>6</sup>Five of the counties omitted constitute New York City. The sixth, Hamilton, is located in the Adirondack forest preserve, and has fewer than 10 commercial farms.

Table 4  
Value of Farm Real Estate in New York

County Group <sup>a</sup>	Average Value/acre			Annual Change in Value/acre	
	1973	1976	1979	1973-76	1976-79
	—Dollars—			—Percent—	
Total Market Value <sup>b</sup>					
SMSA Counties	784	969	1,105	7.9	4.7
NonSMSA Counties					
High Population	535	661	754	7.9	4.7
Low Population	453	560	638	7.9	4.6
State	595	736	839	7.9	4.7
Market Value of Land <sup>c</sup>					
SMSA Counties	498	628	729	8.7	5.4
NonSMSA Counties					
High Population	340	428	497	8.6	5.4
Low Population	288	363	421	8.7	5.3
State	379	477	554	8.6	5.4
Use Value of Land <sup>d</sup>					
SMSA Counties	173	220	280	9.1	9.1
NonSMSA Counties					
High Population	124	158	206	9.1	10.1
Low Population	120	150	203	8.3	11.8
State	140	177	231	8.8	10.2

<sup>a</sup>See Table 2.

<sup>b</sup>The 1973 figures are total market value of farm real estate reported by the Governor's Task Force divided by acres of commercial farmland (Table 1). The 1976 and 1979 estimates are based on the assumption that the market value of farmland in all county groups increases at the rate derived from New York farm real estate values reported in USDA's Farm Real Estate Market Developments (p. 25).

<sup>c</sup>The fraction of farm real estate value due to land (excluding improvements) in a given year is assumed to be equal to a statewide average derived from data in USDA's Farm Real Estate Market Developments (pp. 25-26).

<sup>d</sup>These estimates were based on the E&A's use-value ceiling factors distributed over E&A land quality classes. Cropland reported in the 1974 Census of Agriculture (U.S. Dept. of Commerce) was distributed to E, A, B and C cropland quality groups according to the proportions of cropland in each county estimated by SCS to be in land capability classes I, II, III and IV-VIII, respectively. Average ceiling factors were applied to orchards and muck and E&A ceiling factors were given for pasture and support land. Data to estimate the acres of different woodlands were unavailable. Therefore, it was assumed that all woodland in 1979 was valued at \$100 per acre. Adjustments for earlier years were made so that the annual increase for woodland value corresponds to the annual increase for support land.

tax levy on farm real estate would have increased from \$89.5 million to \$114.2 million. This \$24.7 million shift is an extremely small proportion of the \$2.9 billion of tax levies collected in New York (excluding the major cities), but it represents a significant increase in farm property tax burdens.

Introducing the possibilities of use-value assessment would in turn reduce the value of taxable farm property on the tax rolls from \$4.9 billion to \$3.5 billion in 1973. This represents a 30 percent reduction and would translate into a reduction in farm tax levies of \$34.1 million if tax rates were to remain unchanged. The reduction would be somewhat less (\$31.8 million) if tax rates on all classes of property were increased to compensate for the reduction in the value of taxable property so that tax liabilities in each of the county groups remain unchanged. In both cases, the tax reductions in all county groups are greater than the increases resulting from revaluation (Table 3). Because farm property constitutes a much higher proportion of all real property in the most rural counties, tax rates must increase by 5.7 percent in the "low population" nonSMSA counties to keep tax revenues constant, whereas the tax

rate increase needed in SMSA counties is less than one percent. In the most rural counties, \$1.3 million or 15 percent of the tax reduction associated with use-value assessment is offset by increased tax rates. Owners of nonfarm property would also be subject to these higher tax rates.

The situation is quite similar in 1979. Compared with the tax levies on farm property when the full market value of farm property is taxed, use-value assessment would imply a reduction in tax liabilities of \$53.0 million. The use-value exemption reduces the value of taxable farm property by \$1.98 billion or 29 percent. This is just slightly less than the 30 percent reduction in 1973. To maintain constant tax revenues, SMSA counties would again have to increase tax rates on all property by less than one percent. Low population, nonSMSA counties would have to raise tax rates by more than 5 percent.

#### SUMMARY AND POLICY IMPLICATIONS

Several important conclusions can be drawn from this analysis. Current assessment practices, strict eligibility requirements and penalties associated with conversion of land to nonfarm uses have severely reduced the incentives for farmland owners to apply for preferential tax treatment in New York. Conversely, revaluation of the entire property tax roll to full market value will increase the tax burden to owners of farm property because, in 1973 at least, farm property was undervalued relative to other classes of property. There is no reason to believe that the situation is dramatically different in 1979. Therefore, the revaluation now occurring gradually among local taxing jurisdictions in the state can be interpreted as the elimination of "de facto" tax relief for farmland owners. The analysis demonstrates that the adoption of use-value assessment would slightly more than offset the tax increases that will result from revaluation. Local jurisdictions are setting the stage for more widespread applications for use-value assessment.

The benefits associated with use-value assessment are largest in urban counties, both because the differences between use values and market values are higher than in rural counties and the value of farmland as a percent of all taxable real property is smaller. Thus, in these urban counties, exemptions through use-value assessment will not greatly erode the tax base for generating property tax revenues for local governments. These exemptions are more important for the financing of local governments in rural areas. Widespread adoption of use-value assessment will necessitate tax rate increases to maintain existing expenditure levels. In some areas, this increase may be significantly higher than the 5 percent average for all rural counties. However, the incentive for any land owner to apply for preferential assessment may be much smaller than in urban counties.

Although court-mandated full-value assessment is designed to improve equity among owners of all property, there has never been complete agreement as to the purpose of the use-value provisions of the agricultural districts legislation. One interpretation is that it should make tax burdens reflect more adequately farmers' ability to pay in areas where land values are affected by urban pressures. When compared with taxes based on market-value assessment, use-value assessment may improve equity in this sense.

If, on the other hand, one believes that the legislation should provide sufficient tax relief to reduce the rate of conversion of agricultural land to urban uses, the current provision will not be completely effective. Aggregate tax reductions of \$31.8 million in 1973, when compared with taxes under full-value assessment, would have translated into tax reductions of \$5.14 per eligible acre in 1973. In 1979 the per acre tax reduction, when compared with full-value assessment, would be \$7.99; total tax liabilities would

Table 5  
Property Taxes on Farm Real Estate In New York, by County Group, 1973  
and 1979

County Group <sup>a</sup>	Value of Farm Real Estate		Tax Levy Based on Market Value <sup>b</sup>	Tax Shift Due to Use-Value Assessment		Changes In Tax Rate <sup>f</sup>
	Market Value <sup>b</sup>	Market Value Less Use-Value Exemption <sup>c</sup>		Assuming Constant Tax Rate <sup>d</sup>	Assuming Constant Tax Revenue <sup>e</sup>	
—Million Dollars—						
1973:						
SMSA Counties	2387.5	1659.8	57.2	-17.4	-17.1	0.9
NonSMSA Counties						
High Population	1130.6	783.2	26.2	-8.1	-7.4	3.6
Low Population	1414.9	1021.2	30.8	-8.6	-7.3	5.7
State	4933.0	3464.2	114.2	-34.1	-31.8	1.6
1979:						
SMSA Counties	3365.2	2360.0	92.6	-27.7	-27.1	0.9
NonSMSA Counties						
High Population	1593.5	1125.8	43.1	-12.7	-11.6	3.5
Low Population	1994.3	1482.8	49.0	-12.6	-10.7	5.3
State	6953.0	4968.6	184.7	-53.0	-49.4	1.5

<sup>a</sup>See Table 2.

<sup>b</sup>The data for 1973 are taken from Table 2. The data for 1979 are derived from the 1973 figures, assuming the same yearly rates of increase reported in Table 4.

<sup>c</sup>These figures are calculated from data in Tables 2 and 4.

<sup>d</sup>These are the changes in tax levies assuming that the tax rates in each of the county groups (excluding the cities in each county) remain the same as when taxes are calculated on full market value without use-value exemptions. These initial tax rates, (per dollar of market value) in 1973 were taken from the Governor's Task Force. Tax rates for 1979 were assumed to have increased according to the trend in property tax rates by county developed from the *Special Report on Municipal Affairs* (New York State Comptroller).

<sup>e</sup>These changes assume that tax rates on all classes of property are increased equally so that the tax revenues generated in each county group are the same even though tax rolls

have been reduced by the amount of the use-value exemption. Implicit in these calculations is the assumption that the value of farm property as a percent of the value of all property is the same in 1973 and 1979. Because this percentage is extremely small in SMSA and "high population" nonSMSA counties, it does not affect the results significantly in these county groups. If farm property increased in value at a slower (faster) rate than nonagricultural property in "low population" nonSMSA counties, these tax rates may be somewhat too high (low). However, because agricultural property is an important part of the total real estate market in rural areas, property values of both kinds of property probably move together to a greater extent than in urban areas. This assumption, therefore, is believed to have little effect in these counties also.

<sup>f</sup>These are the tax rate changes needed to keep tax revenues in each county group constant when tax rolls are reduced due to use-value assessment.

fall by 28 percent. Because only 66 percent of this eligible farmland is owner-operated and the remainder is rented from others, only this fraction of these benefits would accrue to farm operators. In 1973, the average tax reduction on land owned and operated by an eligible farmer would have been \$866 and would have risen to \$1,347 per farmer in 1979. Although the benefit to some farmers would be higher than this average figure, and farmers would welcome the tax reduction, it has been shown that use-value assessment essentially reestablishes the status quo in the face of revaluation. Real estate taxes still remain around 6 percent of total production expenses.

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