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by

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Farm-Value Assessments as a Means For Promoting Efficient Farming In Urban Fringes

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Recently many have argued that farm-value assessments can play only a small role in guiding land use within the urban fringe (Hady and Sibold; Gustafson and Wallace). Some consider it possibly a stop-gap measure (Gloudemans), while others condemn it almost totally (Schwartz, Hansen and Foin). These arguments are based on studies of the effectiveness of farm-value assessments in halting the advance of suburban perimeters; in preventing the urban sprawl that replaces farming with houses, factories, shopping centers, and other features of an urbanized landscape.

In this article we accept the idea that farm-value assessments cannot hold back urbanization but argue that such a policy instrument still can have an important effect on land use in the fringe by facilitating efficient farming on fringe lands until urban uses are in fact ready to occupy them. We emphasize that urban fringes are usually broad belts extending outward beyond the closely settled suburbs of a city to the residential limits of the commuting population and that there is no necessary relationship between the width of the fringe and the area that realistically can be expected to become "wall-to-wall" city within any specified time period. We point out that even scattered urbanization in the fringe often leads to speculation and inflated prices which result in tax increases on farmland that discourage farmers from maintaining or replacing farm improvements that are needed for efficient farming but have no value to nonfarmers. We point out further that farmers under these conditions may sell to speculators who sometimes rent to farmers but almost never invest in farm improvements. Thus a process of premature and often excessive disinvestment in farm improvements takes place even if the land remains nominally in agriculture. It is suggested this is especially significant where efficient farming requires large investments in real estate improvements such as barns, orchards, and irrigation and drainage facilities.

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Agriculture Can Die Before Urban Occupancy

A recent report of the Council on Environmental Quality states (CEQ, p. 63): "If differential assessment of farmland has any efficacy in achieving the goal of maintaining current use, it is because the tax reductions resulting from it serve to decrease the number of farms which are sold for purposes other than farming . . . ." This statement fails to recognize that agricultural output can be reduced without a sale to a buyer who will put urban structures on the land. In many areas it is rare for land to pass directly from modern, highly productive farming to an urban use. The invest-

ment stream needed to maintain farm viability often is interrupted long before the actual transfer to an urban use. During this transition stage, productive land can even lie idle though its owner would be willing to rent it for farming at a low figure (Bryant, October 1975).

The passage from the CEQ report cited above reveals a failure to understand the nature of the urban fringe. The report throughout assumes that the fringe is a very narrow belt that moves slowly across the countryside followed by total urban development. In the authors' eyes, apparently, the "highest and best" use within this narrow fringe clearly has become residential, industrial and commercial and to hold assessed values for farmland below urban values would be to interfere with the orderly transfer of land to these uses.

Actually there is a much extended urban gradient that reaches outward 50 miles or more from the largest metropolitan centers and somewhat lesser distances from smaller ones. This gradient is one in which population densities, land prices, land taxes, and public services increase as one moves toward the city (Bryant, April 1975). It is a gradient, also, in which the chances that any given area of land will be converted to a nonfarm use is greater near the city. But even near the city this chance may not be a certainty since it is dependent in part on the rate of the area's overall metropolitan growth. And further out, the chance for total urbanization in the foreseeable future may be very low.

The urban fringes of cities today, therefore, are places of great uncertainty. There will continue to be some suburban growth around many cities and urban uses also will continue to scatter here and there well out into the countryside. But just where will the solid growth occur and on which spots will the scatteration alight?

Uncertainties in the fringe create a game of "real estate roulette." Speculators play this game by choice but many farmers feel forced to play it. If farmers are within even the outer reaches of the fringe they have some chance for a high-priced nonfarm sale if they make no further farm improvements. If a farmer decides to gamble on a nonfarm sale, he stops investing in improvements that will not enhance the sale price of the unit for nonfarm purposes. In a few years he will have a "rundown" farm that will sell very poorly on the farm market if it is not sold before then for nonfarm development. If all his neighbors have decided to bet on a nonfarm sale, agriculture may soon lose its critical mass (Dhillon and Derr). The veterinarians become cat and dog specialists, farm machinery dealers convert to lawn and garden equipment, and the feed stores close their doors. Farming and agribusiness skills and interests disappear. The re establishment of agriculture under these circumstances is a slow and painful process.

It seems, however, that the possible need fo re-establishment of agriculture never occurs to th authors of the CEQ report nor to most other writers on farm-value assessments. They assume, instead, that population will continue to grow, tha rural people will continue to move to metropolises and that metropolitan growth will be principally fringe phenomenon moving the suburbs ever outward.

It was unrealistic to anticipate the total urbaniza tion of all fringe areas for many decades even be fore the recent turn-around in population trend that has occurred in many parts of the Northeas and Midwest (U.S. Department of Commerce July 1976). The fringes were so large that urba populations could not have increased enough t densely populate all of them at the rates of increas then current. (Fringes around typical U.S. citie contain some five times as much area as the me ropolitan center.) Today some fringe population are hardly growing at all.

Even today in many fringe areas farmers ar tempted to bet on a nonfarm sale rather than t make the investments needed for aggressive farm ing. Infiltrating nonfarmers, even in outer fring areas, bring increased vandalism, stealing, nu sance ordinances restricting farm practices, an demands for large increases in public services. Th resulting speculation in land also often creates th illusion that all farmland could be sold at housel prices and assessors are pressed to increase far assessments accordingly.

Farmers themselves often contribute to the ri in fringe land prices. Most farmers are aware th to sell a part of their farm reduces the usefulne for farming of the remainder due to the resultin influx of nonfarm neighbors. They are aware, to that to move a farm business is costly, time co suming, and risky. For these reasons they ask hig prices when nonfarmers seek to buy their land.

Some people, not understanding the constrain under which farmers operate, call the speculators or opportunists. Others more dispa sionately argue simply that if farmers ask $5,0 for an acre of land when a commuting urba worker buys it, farmland should be assessed for t purposes at that price.

Many assessors in the past, being aware of t uncertainties in the fringe and the constraints farming, followed a rule that calls for assessin

arm at urban value only after the farmer actually ells some portion of it at such a price. Some com- plain that this policy lets farmers who own valuable and go "free" if they sell all of it at one time. The point of view reflected in this complaint is bringing egislative revisions in assessment procedures, as t did in New York State in 1970 (Lutz). Some court decisions also appear to be guided by the same point of view. For example, on June 5, 1975 the New York Court of Appeals, the highest court in the state, ordered the Town of Islip (Suffolk County) to assess all property at "full market value" by December 31, 1976. In this decision, *Pauline Hellerstein v. Assessor of the Town of Islip*, the Court of Appeals held that the assessment of property at a percentage of such market value conflicted with Section 306 of New York's Real Property Tax Law. Although this decision is limited to the Town of Islip, over 30 similar challenges are now being made in other municipalities and it is generally agreed that the lower courts will be bound by this decision. Thus, it seems apparent that more New York localities will start assessing at such values (Lesher), though it clearly will be rare that all farmland in any fringe could be sold at that level even for decades.

Providing Farmers an Opportunity to Trade Chances

The possibility of making an attractive nonfarm sale in most fringe areas thus is a "chancy" one, and one in which probabilities are difficult to estimate. The possibility of surviving as a farmer in these areas also is less than certainty and some of the new laws and court decisions are changing these chances.

Farmers are accustomed to dealing with uncertainty. Weather, disease, insects, accidents, and prices are less than fully predictable. The physical outcome of a crop growing or animal producing effort must be predicted in terms of probabilities; the financial outcome is even less certain. With this background, farmers are able to understand the nature of the nonfarm sale chance gradient in the urban fringe and, according to the experience that has been gained with some of the use-value assessment programs, are willing to deal in a "market" that consists of trading chances.

A number of the use-value assessment programs for farmland provide farmers an opportunity to trade a reduction in their chances for a nonfarm sale for an increase in their chances for remaining in farming, at least a few years longer. The New York agricultural district program is an example. The New York program was designed specifically to keep good farmland in farming until it is really needed for urban uses through its unique set of provisions to facilitate agricultural production and discourage urban development (Conklin).

All districts that have been formed under the New York district law have been initiated by farmers and have passed through a series of local and state government actions. Once formed, the following provisions hold within these districts (Conklin and Bryant):

1. *Permit farm-value assessments.* — Farmers may have the value of their land in excess of its value for farming exempt from taxation if they produce an annual average of $10,000 in farm products and file an annual application. Land which has received this exemption is subject to a maximum five-year rollback if converted to a nonfarm use. Individual farmers who are not inside a district are also eligible for use-value assessment. Their commitment, however, is for eight years (renewable annually) and conversion to a nonfarm use involves a monetary penalty equal to twice the taxes levied on the entire property so committed in the year following the conversion.

2. *Limit ordinances affecting agriculture.* — Local governments may not enact ordinances that would restrict or regulate farm structures or farm practices beyond the requirements of health and safety.

3. *Instruct state agencies to encourage farming.* — State agencies must modify administrative regulations and procedures to encourage the maintenance of commercial agriculture to the extent compatible with health, safety, and any applicable federal regulations.

4. *Modify eminent domain proceedings.* — The right of public agencies to acquire farmland by eminent domain is modified although not removed. They are required to give serious consideration to alternative areas before good farmland can be taken for public uses.

5. *Restrict public funds for nonfarm development.* — The right of public agencies to advance funds for sewer, water, and other facilities that would encourage nonfarm development is modified.

6. *Limit special service tax assessments on farmland.* — The power of special districts to impose benefit assessments or special *ad valorem* levies on farmland for sewer, water, lights, sanitary landfills, and nonfarm drainage is limited.

New nonfarm activities are not precluded in the districts but the measure of priority accorded farming directs nonfarm attention elsewhere and gives farmers the kind of reassurance that encourages

strong commitments to continued farming. In New York State farm and nonfarm lands are often closely interspersed, and nonfarm users usually can find nonfarm land that is suited to their purposes. Similar conditions exist in many other parts of the country, though not in all.

About 4.7 million acres have been placed within the 336 agricultural districts formed in the six years since the law was passed, and district formation continues.[1] Initially districts were formed principally in rural areas where farmers felt threatened by proposed government projects or encroaching recreationists. But within recent years a substantial amount of urban fringe acreage has been placed in districts. As of August 1976 approximately 28.9 percent of all districted acreage was located in 16 of the state's 21 counties classified as Standard Metropolitan Statistical Areas outside of New York City; and 23.4 percent of all districted acreage was within 25 miles or less of an urban area of over 50,000 population (Bills).

Farmer actions in two counties in the fringe of New York City illustrate their willingness to react to changing chances for survival and to accept reductions in chances for a nonfarm sale in return for increased chances to remain in farming.

Orange County, New York

Orange County is in the lower Hudson Valley. With its center about 50 miles from New York City, it is considered an urban fringe area. The total population in Orange County increased by 20.6 percent during the decade of the 1960s. And from 1970 to July 1, 1975, the county's population grew 9.4 percent, going from 221,657 to 272,500. Over one-half of this increase was due to net inmigration (U.S. Department of Commerce, July 1976).

Although Orange County has experienced significant population growth over the last 15 years, agriculture is still an important component of the county's economy. Of the county's 533,000 acres of land, over 150,000 acres are in farms that generate over $42 million in gross farm receipts (U.S. Department of Commerce, June 1976). Milk and vegetable production are the primary sources of farm income.

In the fall of 1974 a set of assessed values that roughly doubled taxes on farmland became official throughout Orange County. After the reappraisal almost none of the farmland was assessed at less than $1,000 per acre, even though the agricultural ceiling values established under the agricultural district law averaged between $270 and $350 per acre for most farmland in the county. The stated polity under the reappraisal was to assess on a "highest and best use" basis. Since at least some farmland had sold for individual houselots or subdivisions in all towns of the county, this use was considered highest and best. The new tax bills on farmland averaged $50 per acre. Soon after the reappraisal, nearly all fulltime farms in Orange County were placed in agricultural districts, and almost all farmers with land that qualified asked for a use-value assessment. With use-value assessment, Orange County farmers were able to reduce their property taxes to approximately $25 per acre, or roughly one-half what they otherwise would have been after reassessment. For the average Orange County farm this meant a savings of $3,000 per year in property taxes. And in some extreme cases, property taxes were reduced by an amount equal to the farmer's net income (King; Hunt).

Traditional economic thinking would claim that without farm-value assessments in Orange County, the price of farmland would have declined to reflect the capitalized value of the tax increases, but since the economically optimum use of farmland remained farming, use would not have changed, although farmland owners would have suffered diminutions in their estates. Such analysis ignores the institutional structure of agriculture. Foreclosures and bankruptcies are a necessary part of any large downward revaluation of farmland. These disrupt production processes, discourage new entrants into farming, reduce banker confidence, and disturb agricultural service industries.

When interviewed in 1975, many farmers in Orange County indicated they could not have survived with the high level of taxes that would have been placed on them by the reassessment. The others indicated the likelihood of less serious disruptions but clearly would have lacked the confidence needed to make improvement repairs and new investments. Some felt the intent of the new assessment was in part to force discontinuance of farming, with the thought that this would speed urbanization. At the time of the survey in 1975, most farmers were cautiously optimistic and were planning at least capital maintenance (King; Hunt).

Shortly after the reassessment, urbanization pressures in Orange County subsided (Tyran), due perhaps to New York City's financial crises, rapid increases in the costs of commuting, and the escalating construction costs of single-family dwelling units. New York State's total population is not increasing and it seems very unlikely that "boom" times will return to Orange County for many years. Some readjustments apparently are being made in assessments but no county wide effort is underway

to this end. It is clear now that the 1974 reassessment was based on false anticipations but it has become in part institutionalized and can be counteracted only by equally institutionalized arrangements — farmvalue assessments.

Suffolk County

It is useful in attempting to see the Orange County experience in perspective to look at parallel developments on the opposite side of New York City. Suffolk County, with a land area of 600,000 acres, comprises the eastern two-thirds of Long Island and produces $70 million worth of farm products annually on approximately 55,000 acres of farmland. Potatoes, flowers, sod, ducks, vegetables and nursery are the major crops (U.S. Department of Commerce, June 1976). The western boundary of the county is 30 miles from New York City, but all areas are heavily suburbanized within this intervening distance. The population of Suffolk County increased 69 percent from 1960 to 1970, growing from 668,000 to 1,127,000. And between 1970 and 1975, when New York State was losing population, Suffolk was one of only seven counties which experienced substantial growth. During this time its population grew at a 10 percent rate, increasing to 1,240,000 people. Over half of this increase was due to net in-migration (U.S. Department of Commerce, July 1976). Approximately 90 percent of the county's population lives along its western edge adjacent to Nassau County, leaving the eastern one-half of the county more rural in character.

The farmers in Suffolk County took almost no interest in the agricultural district program for five years after its passage. Three factors appear to have discouraged their interest: (1) chances for a high-priced nonfarm sale were quite high — much higher than in Orange County; (2) most farmland was assessed at farm values; and (3) a county program for purchasing development rights from farmers was in the formative stages.

Chances for a nonfarm sale have remained relatively high though some have suggested that in some areas the demand for farmland has weakened (Lesher and Eiler). However, the other two factors have changed sharply. It is expected now, due to the Hellerstein decision, that all towns in the county will be forced to assess all land as though it could be sold on short notice for urban development. Some towns have already chosen to do so (Wacker). And reassessment could raise taxes to levels that would seriously disrupt agriculture. Also, the county development rights purchase program has been at least temporarily established and is not now expected to affect more than 4,000 acres (Lesher and Eiler).

With 270,000 acres of open land, it will be many years before Suffolk is wall-to-wall city and assessments based on sales for urban uses would be false representations of farm sale possibilities and excessive burdens for farmers to bear.

Because of changes in chances for survival due to rising taxes and the small scale of the rights purchase program, farmers in Suffolk now are initiating steps to form agricultural districts. Several, in fact, are signing commitments, though their provisions are more restrictive, anticipating the formation of districts that will replace the commitments. Proposals are now moving forward to create two districts comprising at least 10,000 acres, and more appear likely.

Summary

The urgan fringe contains far too much land to become completely urbanized within the lifetimes of people now living. Road strings and peppered patterns of development permeate the fringe, however, bringing speculation and other activities that are disruptive to farming. One of the most disruptive factors is being introduced today by various laws and court decisions that encourage or force the assessment of farmland in the fringes on the basis that it all could be sold for urban uses in the near future. Such levels of assessment discourage farmers and agribusinessmen from sustaining the streams of investment that are necessary for survival of an aggressive agriculture. This could produce large areas of poor farming or even weeds or brush, which may be aesthetically pleasing to some but create little employment and less tax revenue, even, than farms assessed at farm value.

FOOTNOTES

[1]There are about 9.5 million acres of land in farms in New York (U.S. Department of Commerce, June 1976). Some land in districts is not farmland, however, so somewhat less than one-half the farmland of the state is now in districts.

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Does anyone put gloves in the glove compartment?