



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

University of California, Davis
Department of Agricultural Economics

A PRELIMINARY EVALUATION OF PROGRESS OF THE CALIFORNIA
LAND CONSERVATION ACT OF 1965*

by

Hoy F. Carman** and Jim G. Polson***

May 1969

Land use problems related to ad valorem property taxation are receiving increased attention. Many people have argued that property taxation results in an "involuntary transfer" of land to nonagricultural uses when taxes reach a level that makes farming and ranching unprofitable. Assessments that are higher than justified by crop producing capacity are a problem to farmers wherever speculative and nonagricultural transactions occur. The problem appears to be most acute in urban fringe areas, as shown by recent figures.

"Taxes per acre levied on farms in Standard Metropolitan Statistical Areas (SMSA's) in 1966 averaged more than 2-1/2 times the taxes per acre on farms in the counties immediately adjacent to SMSA's, and more than 5 times those in rural counties more removed from the metropolitan centers. In addition taxes per acre are increasing more rapidly in the metropolitan areas than in the rural areas." [6, p. 3]

At least 27 states have taken some legislative approach to tax relief for farmers as a means of preventing "involuntary transfer" of land out of farming [3, 6, 7]. Two other states approved constitutional amendments allowing the legislature to enact differential assessment legislation [7, p. 3]. Legislative approaches to tax relief include differential assessment, tax deferral, planning and zoning, and easement.

Paper presented to WAEA mtg, Corvallis, Oregon, July 1969 published in Proceedings WAEA 42 annual mtg.

California, recognizing some of the land use problems created by population and urban growth, passed an enabling statute, the California Land Conservation Act of 1965, which authorizes local governments to enter into bilateral legal arrangements with property owners to conserve agricultural land for agricultural use. Land placed under contract or agreement is assessed on the basis of value in agricultural production since the property owner relinquishes his nonagricultural development rights.^{1/} Contracts and most agreements are written for a minimum period of ten years and are automatically renewed unless designated action is taken by either party to the contract. The goals of the Land Conservation Act are to: (1) preserve a maximum amount of the limited supply of agricultural land to maintain a healthy agricultural economy and provide adequate food supplies in the future and (2) discourage premature and unnecessary conversion of agricultural land to nonagricultural uses.^{2/}

Progress Under the Act

There has been a lack of data or analysis on the impact of differential assessment laws. One area of concern is whether or not they preserve open spaces and agricultural land. Preliminary data on acceptance of the California Act by county governments and landowners have recently become available. These data allow a limited appraisal of progress under the California Land Conservation Act from September 1965 to March 1968.

A survey conducted by the California Legislature Joint Committee on Open Space Lands during the fall of 1968 provides information on the number of counties utilizing contracts or agreements, amount of land under contract or agreement, and proximity of contract and agreement land to incorporated areas [1]. Twenty-three of California's 58 counties had

executed contracts or agreements covering 2,061,968 acres of land by March 4, 1968. Over 98 percent of the land was under agreements rather than contracts and 93 percent of the land was classified as nonprime land. Of the majority of land signed up, 1,618,230 acres were more than 10 miles from a city, 359,317 acres were 3-10 miles from a city, and 84,421 acres were within 3 miles of a city.

Satisfaction of the stated objectives of the California Land Conservation Act requires execution of contracts and agreements on a high proportion of the State's farm and ranch land. One would expect land sign-ups as a proportion of total land area to be highest in the distance category of 3-10 miles from an incorporated area. Landowners in the 3-10 mile category suffer from increased assessments but have limited opportunity to dispose of land for nonagricultural purposes. We expected land sign-ups in the 0-3 mile category to be low as a proportion of total land area for at least two reasons. First, local governments will allow for some expansion and will be reluctant to sign contracts or agreements on some land bordering cities and, second, landowners close to urban areas look forward to the time that they can dispose of their land for nonagricultural use at a high price. Some landowners have been paying real estate taxes based on value in a nonagricultural use for a number of years. Many farmers in the 0-3 mile distance category can be viewed as land speculators. Initially, we would expect land sign-ups over 10 miles from a city as a proportion of total land area to be greater than the 0-3 mile category but less than the 3-10 mile category. This expectation was based on the assumption that land more than 10 miles from an incorporated area is already being assessed on the basis of agricultural use. Thus, there would be little tax advantage in executing a contract or agreement.

The empirical analysis of the above expectations consisted of comparing the actual amount of land placed under contract or agreement in each distance category with estimated total land area in the distance category.^{3/} The two sets of values are shown in Table 1. The hypothesis that the proportion of land placed under contract or agreement in each distance category is equal was tested through use of analysis of variance. The test statistic led to the rejection of this hypothesis and the conclusion that there is a difference in the proportion of land placed under contract or agreement in each of the three distance categories.^{4/} The use of contrasts shows that the average proportion of land placed under contract or agreement over 10 miles from a city > proportion 3-10 miles > proportion 0-3 miles.^{5/}

A Preliminary Evaluation of the California Land Conservation Act

The preceding analysis permits a limited evaluation of some aspects of the California Land Conservation Act and it also raises some questions deserving further investigation. Initial land sign-ups under the Act are concentrated over 10 miles from incorporated areas. Land placed under contract or agreement as a proportion of estimated land area is 2.6 percent in the 0-3 mile category, 3.9 percent in the 3-10 mile category, and 14.2 percent in the over 10 mile category.

We did not expect the comparatively low proportion of land sign-ups in the 3-10 mile distance category and the comparatively high proportion in the over 10 mile category. Several factors may be responsible for these differences. Landowners in the 3-10 mile category may have very good opportunities to sell their land for nonagricultural use at inflated prices.

TABLE 1

Land Sign-ups Under the California Land Conservation Act of 1965
by Distance from Incorporated Areas and Estimated Total
Land Area by Distance from Incorporated
Areas, California, July 1969

County ^{a/}	Land under contract or agreement ^{b/}			Estimated total land area ^{c/}		
	Miles from nearest incorporated area					
	0-3	3-10	Over 10	0-3	3-10	Over 10
	square miles					
(1) Alameda	2.4	10.3	20.9	176	223	49
(2) Butte	--	7.4	48.2	168	739	338
(3) Calaveras	--	4.5	9.4	41	237	453
(4) El Dorado	4.1	26.7	116.5	68	337	304
(5) Fresno	3.4	62.5	164.8	602	1,542	1,395
(6) Kern	1.8	68.6	907.3	481	2,375	3,947
(7) Madera	--	38.4	172.0	95	431	786
(8) Marin	24.2	41.2	54.4	117	148	184
(9) Mendocino	3.3	6.2	2.5	136	876	2,096
(10) Monterey	9.4	7.8	267.2	259	907	1,219
(11) Placer	--	--	7.7	176	360	89
(12) Riverside	--	5.2	--	726	1,274	2,145
(13) San Benito	1.4	18.7	358.5	75	234	1,063
(14) San Mateo	4.8	9.1	36.9	74	143	80
(15) Santa Barbara	4.5	1.8	39.0	175	501	570
(16) Santa Clara	48.2	99.5	84.2	291	573	172
(17) Santa Cruz	--	--	2.7	137	182	34
(18) Solano	4.6	.5	--	151	506	14
(19) Sonoma	11.7	80.6	27.3	351	734	383
(20) Tehama	.5	12.6	52.5	146	582	1,287
(21) Tulare	2.9	30.2	112.1	338	1,136	1,040
(22) Tuolumne	.4	29.4	47.5	43	191	227
TOTAL	127.6	561.2	2,531.6	4,826	14,231	17,875

a/ San Bernardino County also has 4.5 square miles of land under contract or agreement but was excluded from the analysis because of difficulties in measuring proximity of land to incorporated areas.

b/ Based on acreage data contained in Survey of California Counties [1, p. 26].

c/ Estimates of total land area by distance categories were developed from California Division of Highways Composite Maps. The estimating procedure was to: (1) delineate boundaries of incorporated areas, (2) delineate

Table 1 continued.

boundaries of areas 0-3 miles and 3-10 miles from incorporated areas with a drafting compass, and (3) measure the land area in each distance category with a planimeter. National forests, national and state parks, military bases, Indian reservations, and lakes were not measured. Some of the land area measured is not used in agriculture because of such things as highways. We assumed that this land is evenly distributed by distance category.

There may be more land speculators in this distance category than originally hypothesized. Lack of willingness to execute a contract or agreement may also be due to production of crops with a high net return per acre. The capitalized value of the land for agricultural use could be as high as the value for nonagricultural use and, thus, there would be little incentive to execute a contract or agreement.

The comparatively high proportion of land sign-ups over ten miles from an incorporated area may be evidence of increased assessments due to sales for nonagricultural use as well as speculative activity. Sign-ups may also be a "defensive action" by many landowners. A portion of a county's tax burden is shifted from landowners who sign contracts and agreements to other property owners. A simple example will show the type of shift which occurs. Suppose that County X has a total assessed property value of \$25 million, an annual budget of \$2 million, and a tax rate of \$8 per \$100 of assessed value. The county signs contracts and agreements on land with an original assessed value of \$10 million which drops to \$5 million based on use in agriculture. To raise \$2 million ceteris paribus, County X must increase the tax rate to \$10 per \$100 assessed value. The least urbanized counties would seem to be most susceptible to "defensive" sign-ups to escape this type of tax shift.

Objections to the California Land Conservation Act have been voiced by both landowners and county governments. Reasons given by landowners for not entering contracts or agreements include (1) lack of assurance of the effect of a contract or agreement on assessed valuation, (2) lack of willingness to relinquish rights to sell land for nonagricultural uses without penalty, and (3) uncertainty about assessment procedures and

increased taxes with notice of nonrenewal [1, p. 8]. Objections to the Land Conservation Act by counties appeared to be that (1) the ten-year minimum term is too short and that an agreement is too easy to cancel, (2) it is not serving as a tool of county planning, and (3) the Act is too complicated [1, p. 8]. The potential effect of the Act on assessed values and shifts in tax burdens are also a source of concern to some counties.

The small proportion of land sign-ups adjacent to incorporated areas indicates that the California Land Conservation Act is not yet accomplishing its objective of discouraging premature and unnecessary conversion of agricultural land to nonagricultural use. The Act should, however, separate the land speculators from farmers in the rural-urban fringe areas. If the speculative goal predominates, nonvoluntary controls may be the only way to prevent urban sprawl and preserve farmland. Increased research on the impact of differential assessment legislation will be necessary to assure satisfaction of stated goals.

July 1969

FOOTNOTES

*The authors appreciate the helpful comments of Warren Johnston and J. Herbert Snyder on an earlier draft of this paper.

**Hoy F. Carman is Assistant Professor of Agricultural Economics and Assistant Agricultural Economist in the Experiment Station and on the Giannini Foundation, University of California, Davis.

***Jim G. Polson is a Research Assistant in the Department of Agricultural Economics, University of California, Davis, and is currently enrolled in the Department's Ph.D. program.

1/ Portello presents a rather complete discussion of the Act along with sample contracts and agreements [4]. Copies of this report are no longer available for distribution. The Act is also discussed by Snyder [5].

2/ A complete statement of goals is found in Article 2 of the 1965 Act as amended in 1968 [4].

3/ Total land area excludes national forests, national and state parks, military bases, Indian reservations, and lakes. The agricultural land area in these counties is approximately three-fourths of the calculated total land area. We assumed that the nonagricultural land area in our estimate is evenly distributed by distance category.

4/ Analysis of variance resulted in the statistic $F_{(2, 63)} = 13.03$ which is significant at the 1-percent level.

5/ A discussion of the calculation and use of contrasts is found in Dixon and Massey [2, pp. 152-155].

REFERENCES

- [1] California Legislature, Joint Committee on Open Space Lands, "Survey of California Counties Relative to California Land Conservation Act of 1965 (Williamson Act)," December 1968.
- [2] Dixon, Wilfred J., and Frank J. Massey, Jr., *Introduction to Statistical Analysis*, New York: McGraw-Hill Book Co., Inc., Second Edition, 1957.
- [3] Hady, Thomas F., and Thomas F. Stinson, *Taxation of Farmland on the Rural-Urban Fringe: A Summary of State Preferential Assessment Activity*, Washington, D.C.: U.S. Department of Agriculture, Economic Research Service, AER 119, September 1967, 80 pp.
- [4] Portello, W. Les, *California Land Conservation Act of 1965, Handbook*, Sacramento: California Department of Agriculture, December 1967.
- [5] Snyder, J. Herbert, "A New Program for Agricultural Land Use Stabilization: The California Land Conservation Act of 1965," *Land Economics*, Vol. XLII, No. 1, February 1966, pp. 29-41.
- [6] U.S. Department of Agriculture, Economic Research Service, *Farm Real Estate Taxes, Recent Trends and Developments*, RET-7, Washington, D.C., December 1967.
- [7] U.S. Department of Agriculture, Economic Research Service, *Farm Real Estate Taxes, Recent Trends and Developments*, RET-8, Washington, D.C., December 1968.