

Agricultural Assessments Are Up This Year

Nelson Bills
Applied Economics and Management
Cornell University

In early January, the New York State Office of Real Property Tax Services (ORPS) released their annual agricultural assessment values (available at: <http://www.orps.state.ny.us/assessor/valuation/agriculture/07agval.htm>). These per acre values will be used by local assessors when processing applications for agricultural assessment for computing agricultural assessments for city and town assessment rolls completed in 2007 and for village assessment rolls completed in 2008. The per acre assessment values are up a rather startling 34% this year, with the base agricultural assessment value moving from last year's \$513 to \$685 per acre. The \$685 figure tops any values calculated since 1990 (see a useful summary of agricultural assessment values at: <http://www.orps.state.ny.us/assessor/valuation/agriculture/valcomp90.htm>)

Such an abrupt increase will undoubtedly generate new interest in the New York State agricultural district program and its provisions for property tax reductions. And, this interest could quickly turn to concern, concerns sufficient to fuel a new debate about New York State's agricultural assessment and its administration. One worst-case scenario is that some landowners will see their tax reduction due to agricultural assessment, whether they are actively farming or leasing farmland to a neighboring farmer, go to zero as the agricultural value established by ORPS overtakes the equalized or full market value of their farm real estate. Others will still find it beneficial to apply for agricultural assessment this year but will also see increases in their property tax bill. These increases will occur because agricultural value, as computed this tax year, will account for a larger share of total equalized assessed value. The amount exempt from municipal, county, school, and special district tax levies will decrease accordingly. These decreases, especially when combined with higher tax rates in some localities, will not only cause hardship for some landowners under financial stress but will probably seem counterintuitive to many concerned with the continued economic viability of New York's farming industry and maintenance of a farmland base.

At the same time, any renewed attention to agricultural assessment in New York State provides an educational opportunity. That opportunity is addressed here for the benefit of Cornell Cooperative Extension educators and their clients. We begin with a brief background discussion of the New York State agricultural district law and its provisions for property tax deductions through agricultural assessment. Then, procedures for calculating annual agricultural assessment values are briefly reviewed, and the factors leading to this year's sizable increase are examined. Finally, a concluding section briefly highlights some issues that farmland owners and their representatives may want to take into account going forward.

Brian Aldrich, Steve Ropel, and Mark Twentyman made helpful comments on an earlier draft.

Background

Agricultural assessments for farmland date to the inception of New York State's agricultural district law in 1971. This means that many owners of agricultural land have benefited from reduced property tax bills for well over one-third of a century. Today, about 60,000 farmland property tax parcels statewide benefit from agricultural assessment. The aggregate size of these tax benefits has increased systematically over the years, with higher land values and higher tax levies to fund public services.

All states in the US make provisions for reduced property tax bills on farmland. The details vary greatly from state to state and little comprehensive, up-to-date information is available on their administration and the level of benefits conferred on landowners who decide to participate in these tax reduction programs.

However, New York State operates one of the Nation's most successful agricultural assessment programs. Here's why:

- ***Compared to performance in other states, New York State's program administration is transparent and calibrated to changing conditions on the ground.*** Administrative issues--more exactly, procedures for calculating agricultural assessment values--were very controversial in the 1970s and early 1980s. The Legislature intervened at that time and, after thoroughly vetting the options, prescribed very detailed procedures for administering the law. These procedures have stood the test of time, both on economic and political grounds. Further, the Legislature has essentially made the agricultural district law a "living document" by periodically revisiting its administration with amendments to take into account changing conditions on farms and shifts in farm policy.
- ***The New York State agricultural districts law contains some safeguards against abuses of tax benefits.*** Owners who receive an agricultural assessment must meet minimum sales and minimum acreage thresholds. Similarly, non-farmland owners must qualify their acreage with a formal, written lease with a bona fide farm operator. Finally, the Legislature gives local assessors direction on decisions that must be made on definitions of land in agricultural production and qualifying farm production enterprises. These conditions help set the stage for the continued monitoring needed to advantage farmers, farmland owners, and the wider taxpaying public.
- ***Although the farmland protection debate often centers on such high-profile programs as conservation easements or development rights purchases, the bellwether source of public support for farmland protection in New York State traces to the property tax benefits arising out of agricultural assessments.*** Statewide, these benefits are now probably approaching \$100 million annually. For this reason, many conversations over open-space protection and maintenance of a vibrant food and agriculture sector, especially in the farm community, begin with concern over the industry's profitability and the role agricultural assessments play in keeping local property tax levies on farmland at manageable levels.

Calculating agricultural assessment values

Administration of the agricultural districts law's provisions for agricultural assessment was stabilized in the 1980s. ORPS makes annual calculations of capitalized net farm income, a standard and widely received technique for property appraisal, according to a formula spelled out in the agricultural district law. The flip side of administrative stability, of course, is rigidity and a lack of flexibility with procedures for calculating agricultural assessment values.

Those procedures are reviewed here. Sec. 304-a. of the New York State agricultural district law explicitly details the steps to be taken to calculate agricultural assessment values each year (interested readers can obtain the full text of the New York State agricultural district law at: <http://www.agmkt.state.ny.us/AP/agsservices/agdistricts.html>). As prescribed by law, ORPS makes those calculations by acquiring state-level data published by the USDA's Economic Research Service (ERS) on gross farm income and total farm expenses (current ERS data are on-line at: <http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm>), along with USDA information on farm real estate values, value of farm structures, and interest on farm mortgage debt. ORPS has received additional guidance on management of these data from an agricultural advisory committee. The principal data management issue has been USDA revisions in state farm income estimates. The USDA revisits the state estimates each year, often making revisions as far back as five years in the net farm income data series.

Using the most recently published ERS estimates, the ORPS calculations for any single tax year begin with the derivation of a base agricultural assessment value. The law prescribes that the base agricultural assessment value shall be the average capitalized value of production per acre for the eight-year period ending in the second year preceding the year for which the agricultural assessment values are certified. The Legislature prescribes a rolling or moving eight-year average to recognize the inherent year-to-year variability in receipts and expenditures realized by New York State farm operators. Then, distributions of agricultural assessment values across mineral and organic soils of varying quality, farm woodland, and land used for aquaculture are applied in fixed proportions as specified by law. Users of this information can quickly identify the base agricultural assessment value in any given tax year-- as the law requires, it is the dollar value per acre assigned to New York State's highest ranked soil, based on expected crop yield (Mineral Soil Group 1a).

These procedures build in year-to-year variation in base agricultural assessment value from two sources. The first is variation anticipated by the agricultural district law: calculation of an eight-year rolling average net farm income. When a calendar year with a relatively low ERS net farm income estimate is dropped from the rolling average and/or when a relatively high net farm income is added, the base agricultural assessment value will increase, all other things being equal.

The second source of year-to-year variation in base agricultural assessment value comes from the ongoing ERS revisions in net farm income estimates. The ERS publishes revised New York State net farm income estimates each year, thus making the key ingredient (a net farm income estimate) for calculating the eight-year moving average itself a moving target. And, the most recent ERS revisions feature large swings in net farm income estimates from one calendar year to the next. For the 2007 base

agricultural assessment value, ORPS used ERS data which boosted New York State net farm income estimates for each of the calendar years 2000-2004, compared to those published in years past. The fluctuation in estimates was between 4% and 14% for production years 2000 through 2003. However, the latest revised ERS estimate for the 2004 production year was up a whopping 44%, compared to last years' estimate for that production year.

These recent upswings in net farm income estimates, as the ERS changes their mind about levels of gross farm income and levels of production expenses incurred by New York State farmers in years past, are embedded in ORPS calculations of the eight-year rolling average. This is because ORPS, based on advice from an advisory committee, has decided to systematically use the most recently published ERS data.

This year, these factors worked together to generate the "perfect storm" for New York State agricultural assessment. A very low income year (1997) was dropped from the rolling average; a very high income year (2005) was added to the rolling average; much more robust ERS estimates of net farm income over that eight year span (1998-2005) were built into this year's calculations.

The cumulative result is a large absolute and percentage increase in the 2007 base agricultural assessment value. It is important to note that an important share of that increase is attributable to nothing more than statistical noise generated by ERS data minders. Close inspection of published ERS data series and ORPS calculations show that ERS net income revisions explain about one-third of this year's increase in base agricultural assessment value.

Discussion

Changes in agricultural assessment values will generate increases in property tax liabilities on farm real estate this year. The exact amount is unclear for individual taxpayers because it will depend on the configuration of soils and land uses on the farm parcels they own, the parcel's assessed value on the local tax roll, the taxing jurisdiction's equalization rate, and the size of the local property tax levy. All these things considered, ORPS has made back-of-the-envelope calculations that suggest that the average increase in tax bills will probably be in the neighborhood of \$2.25-\$2.75 per acre, depending on one's assumptions about the size of local tax levies. Some farm operators will be able to offset a portion of those increases with higher benefits from the Farmers School Tax Credit (for a description of this program, see: www.tax.state.ny.us/pdf/publications/multi/pub51_1197.pdf).

It's not certain what we should expect for next year. On the one hand, it is likely that the moving eight-year average net farm income estimate will fall, but that depends on 2006 ERS net farm income estimates. Another wild card is the direction of any ERS revisions to previous year's net farm income estimates. These revisions could easily work against the effects generated by the law's prescribed eight-year moving average. Indeed, a concern is that ERS manipulations of New York State net income estimates will eventually introduce enough instability to make current calculation methods unsustainable. Fortunately, New York State policymakers could easily consider steps that would cope with unexpected, and often unexplainable, movements in statewide net farm income estimates generated by ERS.