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**Working Paper**

## Will Agriculture Be Able to Live with the Real Estate Tax?

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WILL AGRICULTURE BE ABLE TO LIVE  
WITH THE REAL ESTATE TAX?

By

George J. Conneman

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No. 77-9

## WILL AGRICULTURE BE ABLE TO LIVE WITH THE REAL ESTATE TAX?\*

### A. SOME HISTORY AND BACKGROUND ON THE REAL ESTATE TAX

1. The real estate tax is the major source of revenue for local government and the school districts of New York State; additionally it is the essential element in State financial planning for distribution of State aid to local governments and school districts (education aid, revenue sharing, etc.)
2. The real property tax is the only revenue source which is locally imposed and locally controlled and therefore a local political responsibility.
3. This idea of control in the hands of local elected people has been the basic principle used in the process of assessing land in New York State (the New England Town meeting concept).
4. As real estate taxes have increased and land values risen, issues relating to assessment and valuation of all forms of real estate for tax purposes have become more sensitive and of greater concern to more people.
5. The yardstick for assessments in New York is Section 306 of the Real Property Tax Law. It requires that "all real property in each assessing unit shall be assessed at the full value thereof". Full value is equal to market value. "Market value" is the price that would be obtained in a public, open market in the presence of many buyers and many sellers.
6. Historically, fractional assessments (some percent of full value) have generally prevailed in New York State. Furthermore, the assessing procedure in New York State has been uneven (not uniform). Real estate has not been assessed at full value. Local control of the assessment function has produced wide variation in assessments (inequities within and between different classes of property). In many areas properties have been reassessed only when they changed hands.

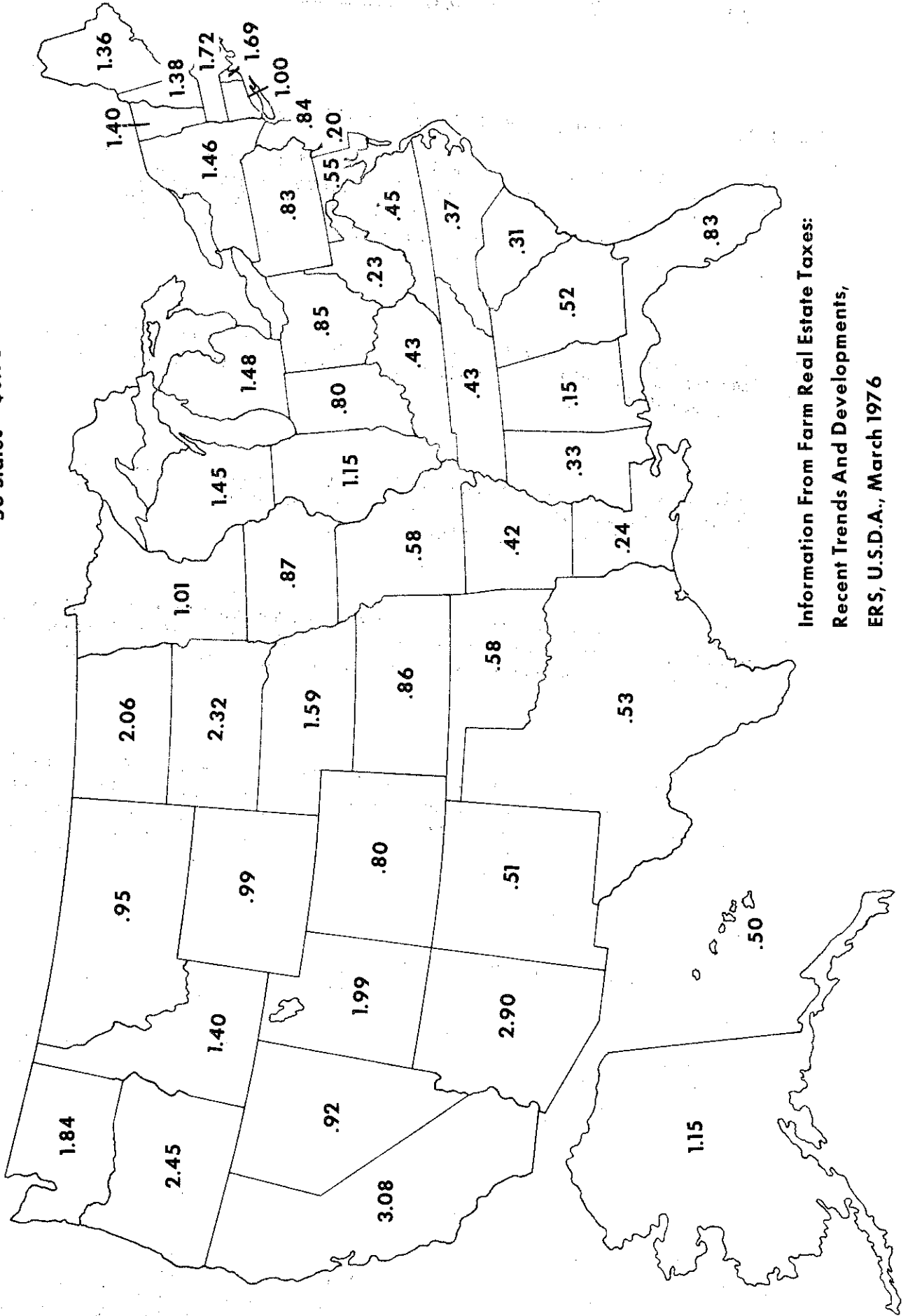
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\* Prepared for presentation at the Agricultural Forum, March 30, April 5, 6, 7, 12, 1977, by George J. Conneman, Department of Agricultural Economics, New York State College of Agriculture and Life Sciences, Cornell University, Ithaca, New York.

TAXES LEVIED ON FARM REAL ESTATE IN 1974

Dollars Per \$100 OF Full Value

50 States = \$0.93



Information From Farm Real Estate Taxes:  
Recent Trends And Developments,  
ERS, U.S.D.A., March 1976

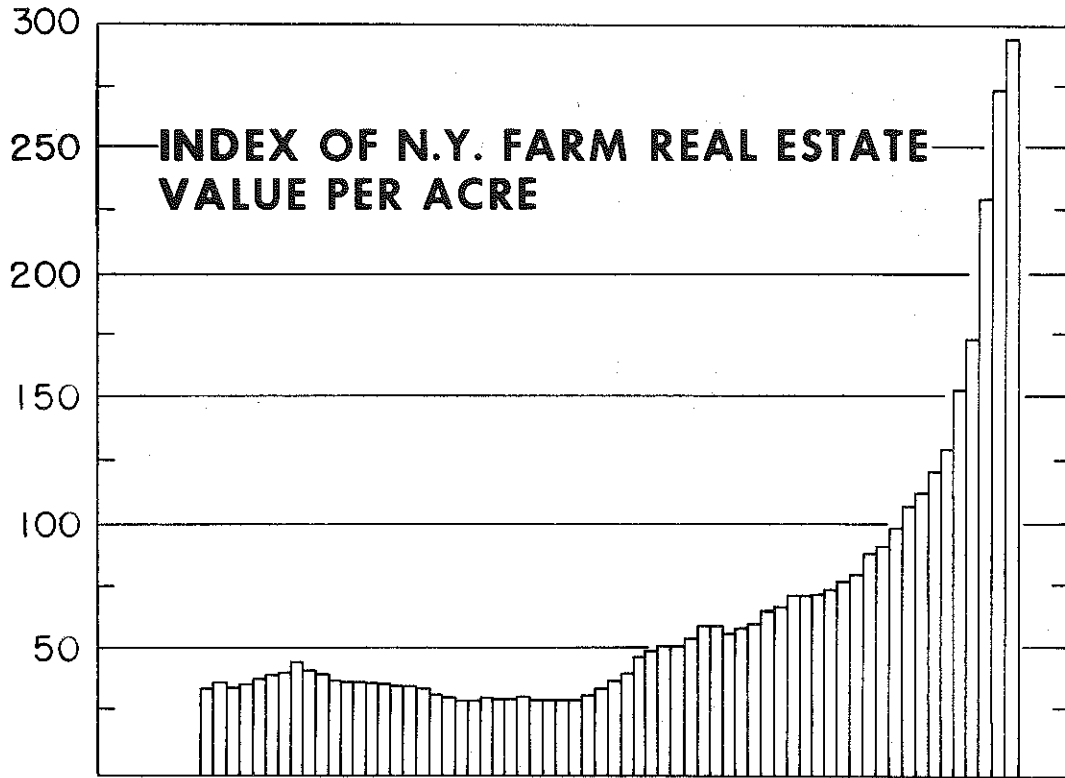
## B. ASSESSMENT

1. Prior to 1970, about 95 percent of the townships in New York had elected assessors with sole power of assessing all real estate in the town. Complaints were made by local property owners to assessors on grievance day.
2. In 1970, the Assessment Improvement Law (Article A-15) amended the Real Property Tax Law.
  - a. Unless town voted to do otherwise it provided for the creation of a position of single assessor appointed by the town board for a 6 year term; if town wished to retain 3 elected assessors, must have had a referendum to approve by July 1, 1971.
  - b. Created an independent board of assessment review (separate from assessors themselves), 3-5 members appointed by the town board.
  - c. Created a position of County Director of Real Property Tax Service to assist the local assessors, i.e., provide training to the town assessor and the review board, coordinates tax mapping. Appointed for 6 years.
  - d. Mandated preparation of tax maps by 1979. Indirectly pointed town and counties in direction of reevaluation of real property (real property reappraisal).
3. Hellerstein Decision (Hellerstein vs. Assessor Town of Islip)
  - a. In 1975 New York State Court of Appeals held that the widespread practice of fractional assessment did not constitute compliance with Section 306. Assessment of real estate at some percentage of market value is illegal; Islip must reassess all property (commercial, industrial, residential, farm) at its full market value.
  - b. Now similar suit filed in 35 towns, villages and cities across New York State. Keep assessment rolls up to date; make annual checks to see what has happened to current market value of real property.

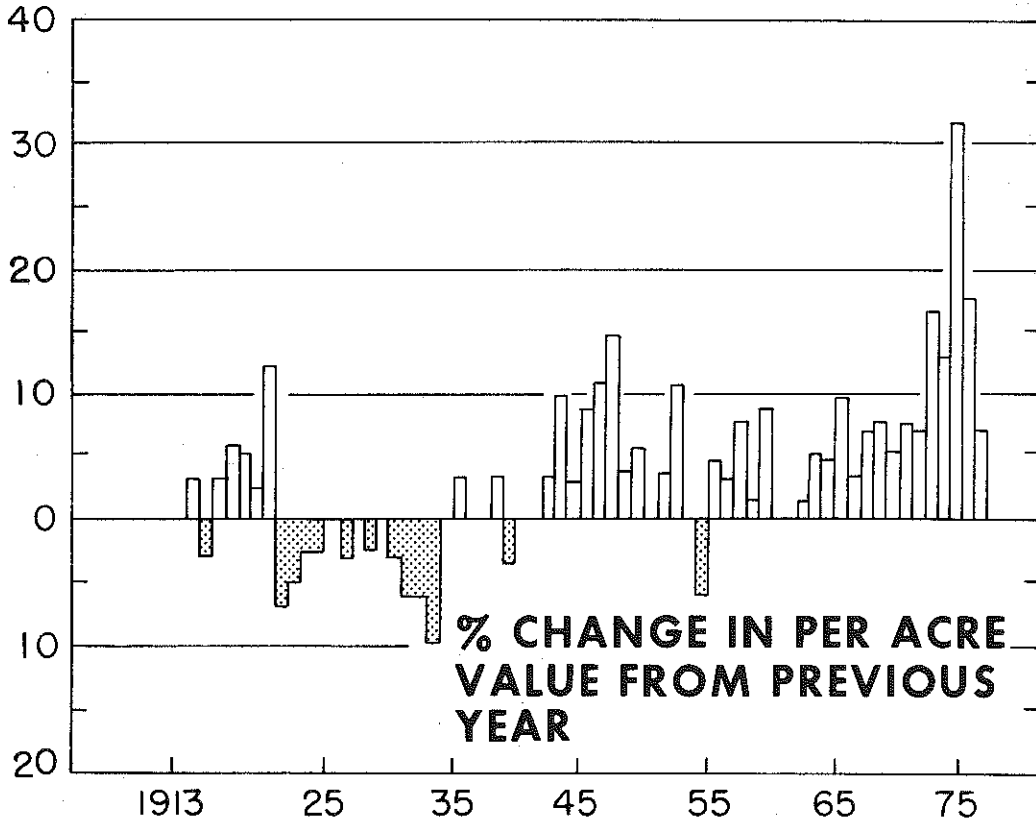
## C. AGRICULTURAL LAND VALUES

1. Dramatic increase in agricultural land values in last 5 years
2. Why the increase in agricultural land values? Many different forces bidding up the price of land -- a mixture of many forces that have acted simultaneous:
  - a. General optimism by farmers about prices and/or earnings
  - b. Traditional belief that farm land is a good hedge against infaltion
  - c. Urban penetration and land speculation
  - d. Proliferation of part-time farms
  - e. Investors and speculators -- pyschology of the times
3. Level of current land values, and projections to 1985
  - a. Change in New York State, 1913 to 1976 (See diagram)
  - b. But not all land values will continue to increase  
Cayuga County vs. Suffolk County vs. the Hudson Valley  
vs. Western Wayne County
  - c. Projection to 1985

**% OF MARCH 1, 1967**



**PERCENT**



**PERCENT REPORTED AS OF MARCH 1, 1913-1975 AND FEBRUARY 1, 1976**

**Source: U.S.D.A., Farm Real Estate Market Developments**



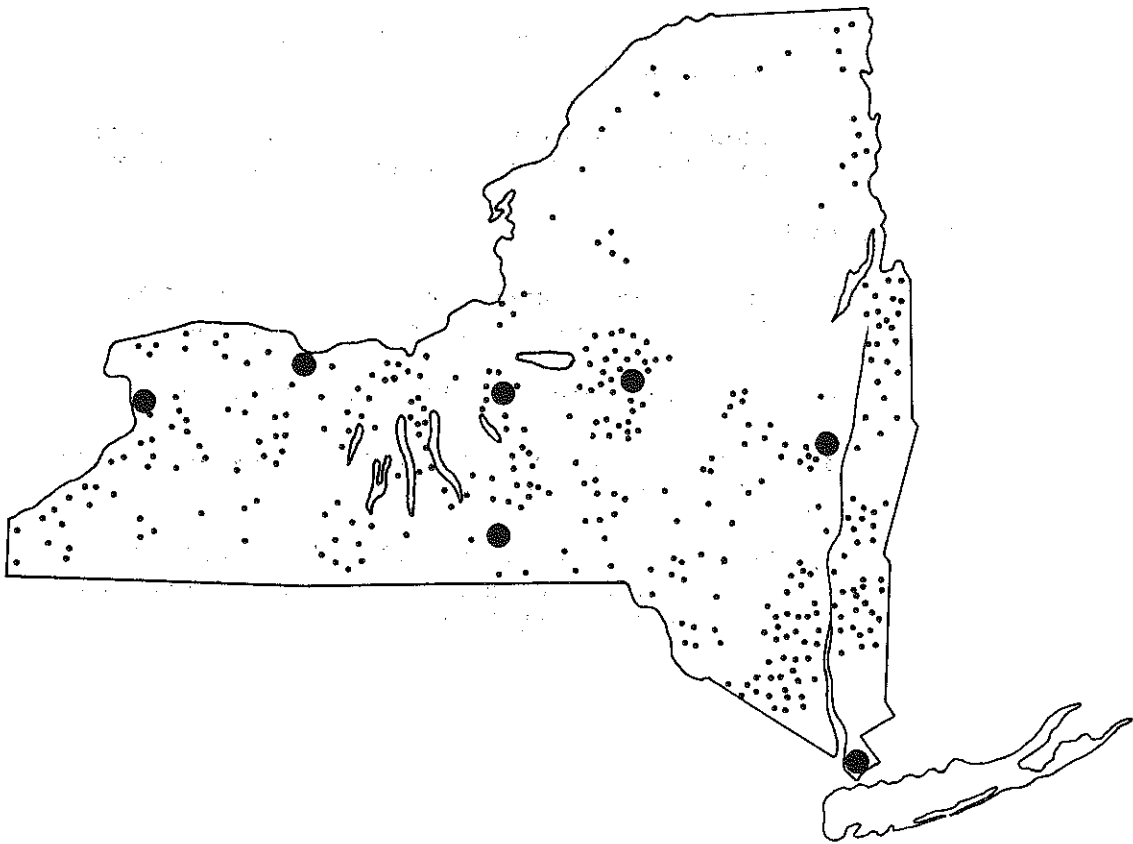


#### D. AGRICULTURAL DISTRICTS

1. As of February 1, 1977, 336 districts have been formed or are in the final stages of formation. These districts total 4,688,914 acres.
2. Locations of districts (see attached map)
3. Have Ag. Districts been successful?
  - a. Purpose:
    - (1) Preserve farming in semi-rural areas?
    - (2) A technique to control growth on farm land adjacent to city centers?
    - (3) A means of preventing "unfair" taking of agricultural land for other uses without careful review?
  - b. Evaluation
    - (1) Farmers got together and said "We're going to farm." What do we have to do to stay farming?
    - (2) Has saved some good land from becoming idle.
    - (3) Provide an orderly conversion process (all can't be wall-to-wall city).
    - (4) Use value assessment - what is it all about? What would farmers have to pay in real estate taxes without Ag. Districts?

# APPROXIMATE LOCATION OF AGRICULTURAL DISTRICTS IN NEW YORK STATE

February, 1977



Included are 336 districts which have been formed or are in the final stages of formation.  
These districts total 4,688,914 acres.

NEW YORK AGRICULTURAL DISTRICTS BY COUNTY  
February 1977

County	Formed or certified <sup>1/</sup>		Under review <sup>2/</sup>		Total	
	No.	Acres	No.	Acres	No.	Acres
Albany	3	26,283	1	13,042	4	39,325
Allegany	3	14,887	2	11,635	5	26,522
Broome	4	66,393			4	66,393
Cattaraugus	4	37,049			4	37,049
Cayuga	1	6,013	1	8,350	2	14,363
Chautauqua	10	165,505			10	165,505
Chemung	1	3,665	1	12,551	2	16,216
Chenango	10	96,765	1	11,673	11	108,438
Clinton	4	45,040			4	45,040
Columbia	10	212,774			10	212,774
Cortland	11	105,275			11	105,275
Delaware	10	201,685	1	11,333	11	213,018
Dutchess	18	181,508			18	181,508
Erie	10	110,755			10	110,755
Essex	5	30,755			5	30,755
Franklin	2	5,719			2	5,719
Genesee	3	47,412			3	47,412
Greene	2	14,956			2	14,956
Herkimer	1	3,311			1	3,311
Jefferson	1	16,100			1	16,100
Lewis	4	209,561			4	209,561
Livingston	7	96,961	1	10,523	8	107,484
Madison	9	89,226			9	89,226
Monroe	5	105,440			5	105,440
Montgomery	7	217,087			7	217,087
Niagara	5	38,818			5	38,818
Oneida	25	111,692			25	111,692
Onondaga	8	111,067	1	23,117	9	134,184
Ontario	6	103,195			6	103,195
Orange	21	117,232	2	31,114	23	148,346
Orleans	3	45,497			3	45,497
Oswego	3	17,775			3	17,775
Otsego	4	63,900			4	63,900
Rensselaer	5	59,300			5	59,300
St. Lawrence	6	415,856			6	415,856
Saratoga	2	28,061			2	28,061
Schoharie	6	96,016			6	96,016
Seneca	10	104,763			10	104,763
Steuben	8	191,205			8	191,205
Sullivan	7	51,748			7	51,748
Tioga	2	21,815	1	67,000	3	88,815
Tompkins	5	65,319			5	65,319
Ulster	20	72,159			20	72,159
Washington	19	178,449	1	14,464	20	192,913
Wayne	8	290,856			8	290,856
Wyoming	3	72,518			3	72,518
Yates	1	73,072	1	33,674	2	106,746
Total	322	4,440,438	14	248,476	336	4,688,914

<sup>1/</sup> Districts that have received final approval by the county or have been certified by the Department of Environmental Conservation.

<sup>2/</sup> Districts that have been reviewed by the Agricultural Resources Commission or sent to ARC for review. They are awaiting certification by DEC.

## E. EXEMPTIONS FROM THE REAL ESTATE TAX

1. Significance of exemption: exemptions erode local real estate tax base; most often (frequently) by state mandate; is there wisdom in providing tax incentives for some group to locate in a particular town?

## 2. General types of exemptions

<u>Type</u>	<u>Description</u>
Agricultural	5-year exemption for improvement of farm real estate (buildings).
Business	On development after 1/1/76 costing over \$10,000, 50% exemption for first year, (then declines by 5% each year for 10 years). Apartments do not qualify.
Aged	50% reduction if 65 years old and below maximum income limit.
Veteran	Up to \$5,000 of assessed valuation.
Clergy (religion)	Exempt if owned by church.
Non profit institutions and government	Exempt

3. Questions: Who should be entitled to them? If real estate is to bear the weight of taxes, what exemptions should we have, who should have them, and how much?
4. What posture should farmers take? Seeking full exemption not logical. Must pay on basis of current productive use of land. Assessment should then be based on agricultural value.

F. SUMMARY: WILL AGRICULTURE BE ABLE TO LIVE WITH THE REAL ESTATE TAX?

1. YES or NO depending on how much real estate taxes increase relative to other taxes (and inputs).
2. Taxes are going to go up; the question is will taxes go up faster than other costs or expenses? Costs more for the services -- roads, highways, schools, police and fire, public health, welfare, recreational facilities, parks, libraries, etc., etc. These services also needed by farmers.
3. Question: If taxes double, will this be the straw that breaks the camel's back? (Depends on what else is doubled simultaneously)
4. But in recent years all costs in farming are up; real estate taxes have increased less than most other costs.
5. Therefore, the question is whether property taxes are going to increase more than other costs and by how much; do not really know but know things will change.
6. If all property in New York State were assessed at full market value, would there be a major shift in tax burden, that is, what is the impact of full value assessment?
  - a. A recent study shows that with full value assessment there would be a shift of real estate taxes
    - (1) Residential, farm and open space real estate is generally underassessed
    - (2) Commercial real estate is overassessed
      - (a) But, residential in the center of town (overassessed?) vs. suburbia (underassessed?)
  - b. A likely increase on the average in proportion of total real estate taxes paid for by farmers
7. But will assessment lag behind the increase in land prices? Always have lagged!!
8. Will increase in land values go on forever? Some evidence in Orange and Dutchess counties that the rate of increase can change very rapidly.
9. Farmers cannot play both sides of the street; generally do not assess a farmer for a subdivision until he sells a building lot.
10. Full value assessment may create more incentive to sign up for agricultural districts because of tax savings. (However, a farmer can get a use value assessment outside an Ag. District.)
11. Need active participation by farmers and agricultural people in establishing and reviewing agriculture use values -- the market for agricultural real estate in farming.

## REAL ESTATE TAXES AS PERCENT OF TOTAL CASH EXPENSES\*

Type of farm	1969	1972	1975
Dairy farms	4.0	3.7	2.9
Poultry farms	1.0	0.9	0.6
Fruit farms	5.0	5.1	4.0

## CHANGE IN REAL ESTATE TAXES\*

Type of farm	1969	1972	1975
Dairy farms	\$1,270	\$1,604	\$2,050
Poultry farms	\$1,103	\$1,337	\$1,821
Fruit farms	\$2,048	\$2,421	\$2,716

\* On farms in the Farm Business Management projects (Cornell University and County Extension Service).