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FARM-VALUE ASSESSMENT AS A MEANS FOR REDUCING PREMATURE AND EXCESSIVE AGRICULTURAL DISINVESTMENT IN URBAN FRINGES

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Farm-Value Assessment as a Means for Reducing Premature and Excessive Agricultural Disinvestment in Urban Fringes

Howard E. Conklin and William G. Lesher

The possibility that farm-value assessments can prevent the spread of urban uses to farmland has been discussed at great length and answered in the negative (Barlowe and Alter; Council on Environmental Quality; Gloudemans; Gustafson and Wallace; Hady and Sibold; Schwartz, Hansen, and Foin). Real estate taxes cannot be reduced enough to assure that farmers will refuse to accept high urban offers for their land. Even the complete elimination of farm real estate taxes probably could not make farming that attractive.

This note considers only the possibility that farm-value assessments can help to prevent premature and excessive disinvestments in agriculture in urban fringes—prevent the discontinuance or debilitation of agriculture before urban users are willing to make high urban offers for all of the farmland in an area. It is argued that the usual process for allocating taxes in urban fringes discourages the continuance of agriculture wherever efficient farming requires large real estate improvements that must be maintained and occasionally replaced but lack value for nonfarm purposes. Evidence from two New York City urban fringe counties is used in support of this argument.

Nature of Urban Fringes

Urban fringes are considered to be the usually broad belts that extend outward beyond the closely settled suburbs of a city to the residential limits of the commuting population. There normally is an urban gradient within the fringe, with population densities, land prices, land taxes, and levels of public services higher near the suburban boundary (Bryant 1975b). In a growing metropolitan area, the frequency of conversions from open to urban uses also is higher near the inner edge of the fringe. There is no necessary relationship, however, between the width of the fringe and the area that will be newly occupied by close settlement within any specified time. In fact, fringes normally exist around U.S. cities whether they are growing or not.

Growth uncertainties have existed for long periods within most fringes. The fringes of most cities have been so large for many years that even under the patterns of population growth and distribution of the past three decades no one could realistically forecast their total incorporation into the adjacent densely populated urban complex in less than a matter of decades.[1] It has long been meaningful in the fringes to ask which areas are likely to experience the most growth and which individual parcels actually will be turned to urban uses in the near future, and it has been very difficult to provide reliable answers. Most population projections made a few years ago for fringe areas have proved to be wide of the mark. Speculators make a business of trying to anticipate what the market will do. If answers were easily arrived at, there would be no speculators.

Given these uncertainties, there have been marked tendencies to be overly optimistic in periods of growth. Real estate "booms" are well known. They are a special kind of mass psychological phenomena that feed upon a lack of full knowledge. They may be followed by "busts" that are corresponding phenomena in reverse.

It is possible to imagine that farmers in the fringe stand only to gain from the developments taking place about them. One might think that farm owners could continue to use their land as before until the day when they are offered a high urban price, or, if the city ceases to grow, they could continue indefinitely as before.

Such a picture could be realistic if the new uses that scatter increasingly among the farmers brought no adverse externalities and if farming involved no long-term investments that are immobile and of no value to urban purchasers. In some cases, the externalities could be avoided if the farmers *en masse* refused to sell any land until the urban market is prepared to purchase a large area. This, however, presupposes a larger measure of concerted action than normally is feasible. In many cases, also, farm and nonfarm lands are intermingled, so group ac-

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[1] Since the area of a circle varies as the square of its radius, the fringe around the closely settled center of a metropolitan unit easily can exceed the area of the closely settled part by several times.

tion would need to extend beyond the farm community.

Most commonly, the externalities are not avoided. Stealing and vandalism increase; ordinances and informal pressures restrict farming practices; more services are demanded than farmers need, yet the costs they occasion often fall heavily on farmers; and the urban sale prices of some parcels provide the basis for assessment increases on all farmlands that further shift service costs to farmers.

In a few areas of the nation, farmland can be used successfully in its natural state. In most areas, however, it must be drained, leveled, or fenced; it must have buildings, irrigation facilities, or orchards added to it; and these investments not only must be maintained but occasionally replaced and almost never have appreciable value for urban purposes.

Farmers who own land in the urban fringe that will not produce efficiently without long-term improvements find the uncertainties of the fringe upsetting (Bryant 1975a). Throughout the fringe, any given parcel possibly can be sold soon for a high price relative to its farm value, but it is very difficult to predict which owners actually will have the opportunity to sell. The likelihood that neighboring sales will bring newcomers who introduce adverse externalities also must be weighed when a farmer contemplates a large new real estate improvement or major maintenance on an old one (Conklin and Dymsza).

Farmers often contribute importantly to the large rise in fringe land prices. Most are aware that to sell small plots or frontage modifies the usefulness of the remainder for farming, partly for reasons of reduced farm business scale but mostly due to the adverse externalities that flow from adjacent nonfarm settlement. Also, farmers considering the sale of their entire unit are aware that it is expensive and time consuming to relocate a farm business (Conklin). Farmers therefore ask a high price for their land until they and their family are through using it.

Some people, not understanding the constraints under which farmers operate, brand them speculators or opportunists. Others more dispassionately argue simply that, if farmers ask $5,000 for an acre of land when a commuting urban worker tries to buy it, farmland should be assessed for tax purposes at $5,000.

Many assessors in the past, being aware of the uncertainties in the fringe and the constraints on farming, assessed farms at urban values only after the farmers actually sold some portions of them at such prices. Some complain that this policy lets farmers who own valuable land go "free" if they sell all of it at one time. The point of view reflected in this complaint is bringing legislated revisions in assessment procedures. Some court decisions appear also to be guided by the same point of view.

The New York State Assessment Improvement Law of 1970 is an example of the new legislation (Lutz). This law placed the State Board of Equalization and Assessment in a stronger position to guide assessment policies, even though assessors still are local officials, and related subsequent action provided the means for computerizing the adjustment of assessed values. In both of these activities, strong emphasis is placed upon current sale prices. In effect, this law accedes to the argument that, if farmers ask a high price for land when nonfarmers wish to buy it, it should be assessed at a high price. Though farmers place a high price on their land because they are reluctant to sell due to nonfarmer-caused externalities and the costs of reestablishment, at least a few nonfarmers actually pay the price, even in the outlying areas of the fringe. These sales are then accepted as setting market prices for farmland assessment throughout the taxing jurisdiction.

The Orange County Experience

The 1974 reassessment of properties in Orange County, in the lower Hudson Valley about 60 miles from Manhattan, is an example of the consequences of the New York Assessment Improvement Law. The reappraisal in Orange County was done by a private firm, but they followed the guidelines suggested to assessors by the State Board of Equalization and Assessment. The task was undertaken at a time of high real estate activity, so numerous instances were at hand in which speculators, developers, or commuters themselves had paid the farmer's asking price.

Orange County's reappraisal put values of $1,000 to $2,000 per acre on most of the dairy farms in the county. These are farms of quite modest productivity, and comparable units were then selling for $300 to $400 per acre elsewhere in the state. Taxes would have risen sharply as a result of the reappraisal, approaching a total of $50 per acre on dairy farms had it not been possible to obtain farm-value assessments.

Farm-value assessments are provided for in New York by the agricultural district law passed in 1971 (Lesher and Conklin). This law permits the formation of agricultural districts through landowner initiative. Once a district is formed, six measures to facilitate farming and discourage nonfarm development are brought into play, one of these being farm-value assessments.[2] Farmers in districts may

[2] The agricultural district law, within the districts, also limits ordinances affecting agriculture, instructs state agencies to encourage farming, modifies eminent domain proceedings, restricts public funds to facilitate nonfarm development, and limits special service tax assessments on farmland (Conklin and Bryant). Farmers outside districts may obtain farm-value assessments by signing commitments for eight years (renewed annually), but conversion to a nonfarm use then involves a monetary penalty equal to twice the amount of taxes levied on the entire property for the year following breach of the commitment. In general, farmers consider

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 that has received this exemption is subject to a maximum five-year rollback if converted to a nonfarm use. As soon as the probable results of the reappraisal became clear, agricultural districts began to be formed in all farming areas of Orange County, and farmers asked for farm-value assessments.

In-depth interviews of fifty-four full-time commercial farmers in Orange County were conducted in two studies made in 1975, shortly after the revised assessment rolls became official and the majority of the agricultural districts had been completed (Hunt, King). Farmers had been very much surprised and greatly distressed by the large tax increases that the new assessments would have imposed on them. For some, the proposed increases more than equaled their net farm incomes. They were much less optimistic about opportunities to sell their lands at urban prices than were local government officials and real estate agents. Young men, many of whom were heavily in debt, were the most disturbed.

While the agricultural district law was passed earlier, the farmers of Orange County had not planned action under it prior to the reassessment. The intent of the law is that an agricultural district increase a farmer's chances for staying in farming but reduce his chances for a nonfarm sale, and farmers seemed aware of this. Farmers earlier were not under serious urban pressure and saw no reason for action that would reduce their chances to make an urban sale even though these were not high.

With the reassessment, however, many farmers saw little possibility for financial survival even in the short run, and all would have been unable and/or unwilling to invest in long-run real estate capital maintenance or replacement.

Traditional economic theory accepts the possibility under these circumstances that the farmers currently operating in Orange County might fail financially due to high taxes and be eliminated from farming. This theory holds, however, that if farming remains the highest net income producing use, the value of the land will be lowered to compensate for the higher taxes and other farmers will take over the farm units (Stocker). Actually, a devaluation of the magnitude needed to compensate for the tax increases that would have resulted from the Orange County assessment reappraisal would involve many foreclosures. Those foreclosed on would henceforth be considered poor risks, and few are available with the needed skills and capital to replace them. Nonfarm employment is relatively plentiful in fringe areas, making farming somewhat less attractive by comparison. Bankers, having lost money on one round of foreclosures, would be very reluctant to loan on farm businesses again. The interruption in farming occasioned by the foreclosures would in turn interrupt agribusiness activities, and some of these would fail financially. The total agricultural industry would have been sufficiently disrupted for many years to destroy it in at least parts of the country.

If the rates of urban growth still prevailed that marked northeastern cities for thirty years after World War II, such agricultural disruption would merely occasion a premature death for the agricultural industry. After a few years of idleness, the land would be turned to urban uses. Today, conditions are different.

Since the reappraisal, the real estate market has weakened in Orange County. Many factors have contributed, including the national recession, the special economic difficulties experienced in New York, and, most importantly, the sharp decline in metropolitan growth in this region of the country. No major revisions have been made, however, in assessed values on any types of rural land in Orange County. Local officials and real estate interests still argue strongly for expecting renewed growth in the county, and some bitterness is expressed about how farmers were permitted to get their tax increases rolled back.

It is difficult, of course, to predict levels of future development in Orange County. It seems clear from the interviews that without farm-value assessments some farm businesses would have already been discontinued under conditions in which the land would not have been put to another use but only held by a speculator who bought it cheaply. Capital improvements on farms would be deteriorating, and more farm businesses would be discontinued soon.

It is the judgment of the authors that it will be many years before New York again experiences strong levels of metropolitan growth. The 1974 reassessment in Orange County was based on false anticipations, but it has become largely institutionalized and can be counteracted only by equally institutionalized arrangements—farm-value assessments.

The Suffolk County Experience

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 on Long Island has attracted much attention by its program for purchasing development rights on farmland. That program was several years in the making and finally materialized in a more limited form than originally planned. During this interval, interest in agricultural districts was low, but it is now growing.

A few of the differences between Suffolk and Orange counties are pertinent. (*a*) The population

the commitments less desirable than the farm-value assessments provided for in the districts.

of Suffolk County has grown much more rapidly. (*b*) Suffolk County is as far from downtown New York, but close suburban settlement associated with the city has extended into western Suffolk County while separated from Orange County by the highlands of the Hudson. (*c*) Suffolk farmers produce a higher value of farm products on less land. (*d*) There has been no comprehensive reappraisal of property in Suffolk County, and much farmland is assessed on its farm value. A recent court decision, known as the Hellerstein decision, has directed assessors in the Town of Islip, Suffolk County, to assess on the basis of "full market value" (Lesher). This is being interpreted as requiring the type of reappraisal conducted earlier in Orange County. Similar cases are pending in other towns.

Discussions of a possible development rights purchase program were begun in Suffolk County some five years ago, and provision was made for such a program in the 1974–77 capital budget (Newton, Scholvinck). Farmland owners were invited to submit bids for the sale of rights in 1975, and 381 of them indicated a clear interest in such sales on 17,000 acres (Bryant and Conklin). Twenty-one million dollars have now been appropriated. This money is expected to buy rights on about 4,000 acres, less than 10% of Suffolk County's 55,000 acres of farmland. It appears unlikely that additional money will be available for several years, if then.

Suffolk farmers expressed little interest in agricultural districts until the size of the development rights purchase program was determined because development rights purchase automatically keeps farm taxes at farm-value levels. Also, strong pressure has developed only recently for reassessment. Chances for nonfarm sales have been generally good in the county, and farmers were not willing to reduce them by forming districts so long as the advantages of districts would be small. (Farmers who anticipated possible sale of development rights spoke favorably of forming districts after the sale in order to gain the nontax benefits of districts, and some of the few who will be able to sell now plan to participate in district formation.)

The current certainty of reassessments in the county combined with the finalizing of the development rights purchase program are now stimulating interest in agricultural districts, and some districts are in process of formation. Many farmers in Suffolk County say they would be forced to discontinue farming if they were assessed for development rights.[3] These are especially the younger farmers who would have cash-flow problems. If they could retain their development rights with no limitations, they might find it profitable in the long run because the chances for a good nonfarm sale in ten to twenty years appear high. Even in Suffolk County, however, these chances are not 100%, and short-run chances are much lower (Lesher and Eiler). Moreover, agricultural credit agencies are reluctant to loan on the value of development rights.

Suffolk County thus is following a path similar to Orange County, though more slowly, due to the emergence of the development rights purchase program and the deferral of reassessment. Farmers in both counties are resorting to farm-value assessments when tax pressures become very high and are expecting them to permit their survival.

Conclusions

In two important agricultural counties of the New York metropolitan fringe, farm taxes, when added to the other adverse externalities created by scattering nonfarmers, threaten to discourage farmers from making the real estate improvements needed to remain efficient up to the time when urban users actually are ready to pay acceptable prices for the land and convert it to urban uses. In the first instance, agricultural districts have been formed, permitting farm-value assessments and reducing the other externalities. District formation is starting in the second instance. Farmers in districts appear optimistic enough to renew aggressive investment policies.[4]

Although there is a continuing urban demand for some farmland in both counties, most farmers within the fringe appear to realize that not all of them can sell at urban values possibly for decades. With no assurance of an immediate nonfarm sale and faced with escalating real estate taxes, farmers have opted for farm-value assessments through the formation of agricultural districts. Apparently, farmers feel that in taking this step they are trading a reduction in their chances for a nonfarm sale for increased security in farming (urban uses will go more frequently to the intermingled nonfarm lands) but consider the trade worthwhile. Farmers know they need to invest continuously in real estate improvements to remain competitive but also realize that to do so means a long-term commitment to farming. Thus, faced with the conditions of the fringe, farmers by choice have elected to operate in an environment where agricultural production is encouraged. There they can continue to produce efficiently until urban pressure becomes great enough to bring them an offer that will cover their fixed investments and the costs of moving or of changing occupation.

The developments that have produced high farm taxes in the New York City fringe probably are not

[3] Recent appraisals of total farmland market values have averaged about $5,000 per acre in several parts of the county, $1,500 of which is considered farm value. Taxes presently average about $75 per acre of farmland but could reach levels above $200 as a result of reassessment (Lesher and Eiler).

[4] No quantitative measurements of farmers' investment reactions have been made under these circumstances, but Nelson Bills (USDA, ERS, NRED, stationed at Cornell University) is undertaking such a study in western New York.

unique. While research repeatedly has concluded that farm taxes cannot be low enough to stop urban expansion, it is proposed here, with some evidence, that they can be high enough to destroy or debilitate agriculture far ahead of the advancing urban perimeter. If this proposition is correct, farm-value assessment can be an important public policy instrument even if it cannot create a fence around urban growth.

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