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AN ANALYSIS OF FACTORS INFLUENCING
THE
CREATION OF LEGISLATION
TO
PRESERVE AGRICULTURAL LAND

by
BRIAN P. O'CONNELL
B.S. University of Wisconsin
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Approved by:


Major Professor

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INTRODUCTION

For as long as there has been a property tax levied *ad valorem*¹ there have been problems with the property tax system on land that is influenced by more intensive uses. These problems have become inherent with agricultural land in proximity to urbanizing areas. These problems appear almost ironic, since the property tax system in the United States was introduced to an agrarian society from ". . . the English land and property concepts the early settlers brought to the American Colonies and in the annual quitrents which the settlers in some colonies paid to agents of the Crown."² Urbanization has added greatly to the headaches of the property tax system and to those individuals responsible for making tax policy.

Adam Smith, the 18th century economist and philosopher offered four "maxims" upon which all forms of taxation should be founded. In part, these principles read as follows:

- I. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue

¹The term *ad valorem* describes a means of taxation where a tax rate is applied to a value that is placed on property. Property taxation in the United States is practically with exception, of the *ad valorem* type.

²Raleigh Barlowe, Michigan State University, Land Resource Economics: The Political Economy of Rural and Urban Land Resource Use, Prentice-Hall Inc. 1958, p. 535.

which they respectively enjoy under the protection of the state.

- II. The tax which each individual is bound to pay ought to be certain, not arbitrary.
- III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.
- IV. Every tax ought to be so contrived as . . . to take out and keep out of the pockets of the people as little as possible . . .

These principles suggest a concern for equity, convenience, certainty, and economy. But since the era of Adam Smith, and the first use of property taxation in the United States, an unprecedented degree of change and total societal evolution has occurred in this country. The property tax system that was initiated by and for an agrarian society is implemented in a country that is now predominantly urban (73% of the population resided in metropolitan areas as of 1974³). Changes have occurred in the property taxation method, which have expanded the administrative ability to keep pace with population growth and urbanization, but not until fairly recently has there been changes in the appraisal procedure of land subject to property taxation.

Up until 1956, all property in the United States was taxed on an assessment of market value or 'highest and best use'. It was at this

³ The Domestic Council Committee on Community Development, 1976, Report on National Growth and Development, The Changing Issues for National Growth, February, 1976, p. 26.

time that the state of Maryland set a precedent" . . . enacting provisions calling for the assessment of agricultural land according to its value for farm use rather than according to the prevailing market value (highest and best use)."⁴

Since the first step was taken by the state of Maryland some twenty-one years ago, 37 states have followed suit to establish some form of use value appraisal of agricultural, recreational, forested and general open-space land. In itself, this reform in the property tax procedure of this country is certainly significant. But, on the other hand, the externalities that have contributed to this reform in taxing procedure are equally as significant.

Many articles written on the subject of differential assessment of agricultural land suggest various objectives in taking this taxation approach. Phillip Raup from the University of Minnesota suggests in an American Institute of Planning Journal in November of 1975 that the preservation of agricultural land, through whatever means, is imperative to maintaining this countries balance-of-payments on a world market.⁵ The phrase 'preservation of agricultural land' implies some form of land-use control mechanism. Professor Raup further qualifies his concern over

⁴Advisory Commission on Intergovernmental Relations, The Property Tax in a Changing Environment, Selected State Studies, M-83, U.S. Government Printing Office, Washington, D.C., 1974, p. 117.

⁵Professor Raup, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, published an article entitled Urban Threats to Rural Land: Background and Beginnings, which describes several governmental programs subsidizing urban and suburban sprawl. He also tempered the efforts of differential assessment as a land use control device unless these taxation efforts were tied to some planning process similar to situations in some European countries.

the loss of farmland to non-farm uses when he details the policies of the federal government to subsidize urban sprawl into rural areas. Also, he emphasizes that land-use control is a local government responsibility which has been impacted by state and federal programs designed to assist development utilizing undeveloped rural land. Herein lies the paradox Professor Raup wishes to address.

In May of 1975, in the Environmental Comment of the Urban Land Institute, an article prepared for the International Association of Assessing Officers entitled Use-Value Farmland Assessments listed two basic concerns on the issue of differential assessment. These were:

- (1) concern for the economic viability of the farmer, and (2) concern over land use and the environment.

The issue of environmental and land use concern vis-a-vis differential assessment as stated by the Urban Land Institute is not vastly different than the concerns of Professor Raup, although ULI has not expressed themselves about the balance-of-payments matter. ULI does address the matter of economic disparity in ad valorem taxation of agricultural land subject to urban development pressure. In part the article states that, "to assess farmlands at market value would, in many instances, impose such heavy tax burdens on the urban fringe farmer as to render continued operations uneconomic. There is much validity to this argument. Effective tax rates in rural areas ordinarily are less than urban areas, since urban dwellers demand more public services."⁶ The article goes on

⁶Urban Land Institute, Environmental Comment, Use-Value Farmland Assessments edited from Use-Value Farmland Assessments: Theory, Practice and Impact, Issue 21, May 1975, p. 4.

to state that taxes on farmland in Standard Metropolitan Statistical Areas has averaged three times more than land adjacent to SMSA's and seven times more than land in other countries.

From the previous description on the disparity of taxes on farmland, it would appear that Smith's principle of 'tax equity in proportion of ability to pay' has certainly become distorted due to the influence of urbanization. In this regard, the argument for differential assessment appears valid.

Besides the desire to direct land-use and development, or the desire to provide proportional tax equity to farming enterprises, some differential assessment programs have stated the objective of preserving open space around developing areas. The State of Maryland has amended its assessment legislation numerous times to provide for additional provisions within the taxing procedure. One portion of the Maryland law states the objective, "to encourage the preservation of open space as an amenity necessary to human welfare and happiness, and to prevent the forced conversion of such open space to more intensive uses as a result of economic pressures caused by the assessment of land at a rate or level incompatible with the practical use of such land . . ."⁷

The complexity of the issue regarding the preservation of agricultural land or differential assessment is magnified when other concerns enter into the political arena.

⁷Annotated Code of Maryland, Article 81, Paragraph 19 (b), p. 567.

"Even when one address an explicit issue related to farmland, one cannot be certain of the real purpose of the parties involved. It may just as well be defined as an urban sprawl issue, a concern for open-space and recreational opportunities, a desire to exclude low-cost housing from the region, the desire to keep taxes low, or even to maintain a rural, small town atmosphere."⁸

But whatever the case maybe, it is imperative that state legislators have a precise concept of the objectives involved in developing differential assessment legislation. Thomas F. Hady emphasizes this point when he states, "To evaluate the laws (differential assessment laws) citizens might want to ask three questions. First of all, they want to try to decide what kinds of land use they are trying to promote-- differential assessment may do some things better than other. The first question then, is what are we trying to do."⁹

As mentioned earlier, 37 states have enacted some form of differential assessment since 1954. The following list indicates the form of property tax appraisal used by the states as of the time of this report.

Table 1 indicates that a majority of states using differential assessment have preferred the system of 'deferred taxation'. Yet each method of differential assessment has unique characteristics that are perceived to accomplish various objectives by the states using the respective method. As Thomas Hady has emphasized, states enacting

⁸ Soil Conservation Society of America, A Series of Articles from the Journal of Soil and Water Conservation Special Publication No. 19, Agricultural Land Preservation in a Land Use Planning Perspective, Richard Collins, 1976, p. 5.

⁹ Thomas F. Hady, Ann Gordon Sibold, State Programs for the Differential Assessment of Farm and Open Space Land, Economic Research Service, U.S.D.A., 1974, p. 9.

TABLE 1

A State-by-State Comparison of the Methods
of Appraising Agricultural Land

Market Value	Preferential Assessment	Deferred Taxation	Restrictive Agreements
Alabama	Arkansas	Alaska	California
Arizona	Colorado	Connecticut	Hawaii
Georgia	Florida	Delaware	Maine
Idaho	Indiana	Illinois	Michigan
Kansas	Iowa	Kentucky	New York
Mississippi	Louisiana	Maryland	Pennsylvania
Missouri	New Mexico	Massachusetts	Vermont
Nevada	North Dakota	Minnesota	Washington
Oklahoma	South Dakota	Montana	Wisconsin
South Carolina	Wyoming	Nebraska	
Tennessee		New Hampshire	
West Virginia		New Jersey	
		North Carolina	
		Ohio	
		Oregon	
		Rhode Island	
		Texas	
		Utah	
		Virginia	

SOURCE: B.L. Flinchbaugh, Use-Value Assessment Case Studies,
KSU Extension.

differential assessment must thoroughly understand the objectives they are trying to accomplish. Therefore, the intent of this study is to document the rationale underlying the creation of differential assessment as used by several mid-western states; and to determine the perceived objectives, and the reason why a particular method of differential assessment was chosen.

The systems used in Nebraska, South Dakota, North Dakota, Minnesota, Wisconsin and Michigan will be analyzed as case studies. These states have been chosen because each of the three methods of differential assessment are existent in the collective case study. Also, there are certainly, inherent differences amongst these states that may indicate why a particular method of assessment was used. Finally, if certain decisive characteristics can be determined, this analysis may shed some light onto the approach that might be considered by Kansas legislators in implementing their system of differential assessment.

STATE POPULATION AND LAND USE PROFILE

Historically, development in the United States has occurred irrespective of the cost to the environment. Until very recently, laws and institutions designed to regulate growth have assumed a personality reflecting a prodevelopment bias. But recent legislation, for example the National Environmental Policy Act, has created a "quiet revolution" in current land use planning and control measures. "The Congress, recognizing the profound impact of man's activity on the interrelation of all components of the natural environment, particularly the profound influences of population growth, high density urbanization, industrial expansion, resource exploitation and new and expanding technological advances and recognizing further the critical importance of restoring and maintaining environmental quality to the overall welfare and development of man, declares that it is the continuing policy of the Federal Government. . . to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations of Americans."¹

More and more people are recognizing that land use and development - good or bad - affects a wide spectrum of environmental, economic, social and political concerns. Over the past several years, numerous attempts at developing a comprehensive National Land Use bill have issued forth from Congress. Already the United States government is

¹Section 101(a) of the National Environmental Policy Act of 1969, Public Law 91-190.

actively involved in land use matters through such programs as the Coastal Zone Management Act and the Flood Disaster Protection Act. This cognizance of land use affects has also found itself at the state level of government. "Forty-eight states have now enacted legislation or are seriously studying proposals to expand the previously limited role of state government in the regulation of land use."²

The National Environmental Policy Act indicated strict concerns for 'dense urbanization' and 'industrial expansion', yet development in the United States has recently illustrated a trend of significant interest to rural residents and county units of government. ". . . for the first time in our nations history, nonmetropolitan areas (suburban areas) are growing faster than metropolitan areas."³ This trend has created a response in land use controls where zoning of unincorporated or rural areas is authorized in all 50 states and in more than three-fourths of the 3,000 counties in the United States.⁴ Rural development has been allowed, all too often, without direction, resulting in pollution from closely spaced septic disposal fields, hazardous traffic conditions from additional entrances onto roadways and unsightly urban

²The Fifth Annual Report of the Council on Environmental Quality, U.S. Government Printing Office, Washington, D.C., December 1974, p. 49. For a more detailed description of state land use control measures, John Coffin and Michael Arnold prepared A Summary of State Land Use Controls: July, 1974 (Washington D.C.: Land Use Planning Reports).

³Miner, Dallas D. Emerging Trends in Agricultural Retention and Open Space Proceedings of the 1975 Property Tax Forum International Association of Assessing Officers Research and Technical Services Division, Washington, D.C., 1975, p. 122.

⁴Rural Zoning in the United States: Analysis of Enabling Legislation, U.S. Department of Agriculture Economic Research Service, Publication Number 1232. This publication offers a descriptive analysis of rural zoning legislation across the United States. New trends in rural zoning are specifically discussed.

sprawl. A major concern of local officials, environmentalists and planners is the irreversible use of agricultural land for residential and other non agricultural uses.

For several years, numerous agencies, principally the Soil Conservation Service, have been conducting land use inventories to determine the approximate amount of acreage that exists in various uses.⁵ From this and other statistical information, estimates of annual losses of agricultural land have ranged from 500,000 to 3,000,000 acres. A general consensus of the literature indicates a 1 to 1.5 million acres per year are taken from agricultural usage to other irreversible land uses such as urban development, water impoundment and transportation easements. In 1976, then Secretary of Agriculture Earl Butz made a proclamation in his Statement of Prime Farmland, Range and Forest Land that "at the national level, individual losses appear small, but the cumulative effect can adversely impact domestic and inter-national production." Secretary Butz's concern received additional enforcement when a group of legislative policy analysts, members of Congress and Congressional staff met on February 8, 1977 to discuss their concern about the importance of the agricultural land base and the loss of farm land. In a workshop paper, these officials stated that:

⁵ The author is most acquainted with the Soil and Water Conservation Needs Inventory developed by the Soil Conservation Service in the earlier 1960's and 1970. This inventory categorized all land in the United States into five general usage categories. The U.S. Department of Commerce Bureau of Census and the U.S. Department of Agriculture publishes similar land use statistics periodically in U.S. Census material.

"The loss of agricultural land to other uses has been a resource conservation concern for many years. Recently, however, this concern has taken on added meaning because of the need for agricultural exports to help counter-balance rising costs of imported oil, because of the diplomatic significance of crop surpluses and because of simple humanitarian requirements in a hungry world."⁶

Although Secretary Butz and these congressional officials express somewhat of a gloomy concern, a recent study completed by the Soil Conservation Service, the Economic Research Service and the Iowa State University Statistical Laboratory indicates that approximately 111 million acres now in pasture, range and forest and other land uses have a high or medium potential for conversion to cropland.⁷ But with increasing transportation costs, increasing energy demands for crop production, escalating costs of fertilizers and other inputs plus the uncertainty of weather and other climatic conditions, the spatial distribution of the dynamics of agricultural land becomes extremely relevant. It is for these reasons that a planning approach to a regional agricultural land perspective becomes important and also insightful into the rationale behind a state created program to preserve agricultural land.

The case study states (Kansas, Nebraska, South Dakota, North Dakota, Minnesota, Wisconsin and Michigan) are located in two farm production regions that are commonly used by the U.S. Department of Agriculture (U.S.D.A.) for statistical and crop reporting purposes.

⁶ Abstract, Protecting Agricultural Lands, Workshop Papers, April 22, 1977.

⁷ Soil Conservation Service, U.S. Department of Agriculture, Statistical Bulletin Number 578 Potential Cropland Study, p. 7. This cropland reserve has been appreciably altered from the 300 million acres previously tabulated.

These two regions are titled and divided into the following states:

Northern Plains

Kansas

Nebraska

South Dakota

North Dakota

Lake States

Minnesota

Wisconsin

Michigan

All of these states (except Kansas) have passed and implemented, to varying degrees, some form of preferential tax assessment system for agricultural lands. The intent of this portion of this report is to document in a planning approach, two general features that may have some bearing on the passage of state legislation for preferential tax measures for farmland. These features are:

1. Population Trend (+ percent change 1970 - 1975)
2. Agricultural Land Use Trend (+ change 1964 - 1976)

These two characteristics have been included because they may offer general insight into, (1) pressure forcing agricultural land usage to convert to urban or other irreversible uses and (2) pressure to establish some system to abate the loss of agricultural land use.

A regional overview of both population and agricultural land base will be provided as an introduction to individual state analysis.

Like most other parts of the nation, the case study states were gaining population in the metropolitan areas of these states during the time period from 1950 to 1970. This is true for all states except North Dakota and Kansas which illustrated a net out-migration of population during 1960 to 1970.

The period of 1970 to 1974 illustrated an almost universal trend of population growth in nonmetropolitan areas. In fact, the most rapid nonmetropolitan growth from 1970 to 1974 was in entirely rural counties. The following table indicates the annual rates of migration in the case study states.

TABLE 1
ANNUAL RATES OF NET MIGRATION,
FOR METROPOLITAN AND NONMETROPOLITAN AREAS IN
CASE STUDY STATES 1950-60, 1960-70, 1970-74

State	Nonmetropolitan Area		
	Metropolitan Area	Adjacent	Nonadjacent
Michigan			
1950-60	.3%	.3%	-.8%
1960-70	.04%	-.01%	.04%
1970-74	-.6%	.55%	2.0%
Wisconsin			
1950-60	.5%	-.7%	-1.4%
1960-70	.07%	.07%	-.4%
1970-74	-.2%	.5%	1.1%
Minnesota			
1950-60	.5%	-1.0%	-1.5%
1960-70	.4%	-.7%	-1.0%
1970-74	-.3%	.6%	.5%
North Dakota			
1950-60	-.6%	-2.0%	-1.8%
1960-70	-.3%	-1.6%	-1.7%
1970-74	.9%	-.4%	-.1%
South Dakota			
1950-60	.01%	-1.8%	-1.6%
1960-70	-.5%	-1.4%	-1.55%
1970-74	.1%	.00%	-.1%
Nebraska			
1950-60	.6%	-1.0%	-1.8%
1960-70	.1%	-.6%	-1.0%
1970-74	1.0%	.2%	-.3%

TABLE 1 - Continued

ANNUAL RATES OF NET MIGRATION,
FOR METROPOLITAN AND NONMETROPOLITAN AREAS IN
CASE STUDY STATES 1950-60, 1960-70, 1970-74

State	Nonmetropolitan Area		
	Metropolitan Area	Adjacent	Nonadjacent
Kansas			
1950-60	1.5%	-.7%	-1.4%
1960-70	-.3%	-.35%	-1.1%
1970-74	-.9%	.4%	-.01%

SOURCE: North Central Regional Research Publication 238
Patterns of Migration and Change in America's Heartland.

Table 1 indicates that in every case study state except North Dakota, there was a positive population increase in the metropolitan areas during the decade of the 1950's. This trend generally continues during the decade of the 1960's but to a lesser degree and actually illustrates a net population decline in metropolitan areas in three of the seven states. Of most significance for the purpose of this study is the trend illustrated from 1970 to 1974 where metropolitan areas actually had a net out-migration during that time period. Further, the nonmetropolitan areas universally showed a net migration increase in either adjacent or nonadjacent areas.

This population characteristic leads to the first assumption that may be regarded concerning possible influences on the conversion of agricultural land and the possible need for some program to preserve this land.

Population migration has occurred primarily in nonmetropolitan areas from 1970 to 1974 which may have occurred in smaller incorporated

cities or strictly rural areas. This trend may have caused the conversion of agricultural land to nonagricultural uses.

The previous assumption addresses only the issue of intra state population migration which is primarily and urban to rural population shift. This shift contrasts earlier population trends and may actually have some bases in the new found desirability of small communities.

"Under conditions of general affluence, low total population increase, easy access to all areas through improved transportation and communication, modernization of rural life, and large metropolitan concentrations in which the advantages of urban life are seen to be diminished, a downward shift of population to smaller communities may be both feasible and desirable."⁸ But this trend does not relate to the total population influence that these states may be subject to. Total population change on a statewide basis may add credence to the pressure to convert agricultural land.

An investigation of the U.S. Bureau of Census, Series P-25 reports for these states indicates that all of the case study states have experienced a net population increase from 1970 to 1975. The following table indicates the numerical and percentage population change in the case study states from 1970 to 1975.

⁸ North Central Regional Research Publication Number 238, Patterns of Migration and Population Change in America's Heartland, p.20.

TABLE 2
POPULATION CHANGE IN CASE STUDY STATES
1970-1975

State	Numerical Change	Percent Change	Rank
Michigan	234,873	2.6	5
Wisconsin	159,522	3.6	3
Minnesota	110,002	2.9	4
North Dakota	25,096	4.1	1
South Dakota	16,487	2.5	6
Nebraska	58,345	3.9	2
Kansas	30,828	1.4	7

SOURCE: U.S. Bureau of Census, Series P-25, 1977

Table 2 indicates that all of the states in the case study area have experienced a net population increase. In terms of percentage increase, two of the states in the Northern Plains region experienced the largest increase, but actual numerical increase was greatest in the three Lake States. In comparing Table 1 with Table 2, a similarity occurs in that the Lake States ranked high in annual out-migration from metropolitan areas as well as total state population increase during the two periods. The only exception to these two trends is the state of Kansas which experienced the largest out-migration from metropolitan areas yet grew the least in total state population.

The manner in which these population trends affect land use and demand for agricultural land is the essence of the following portion of this report. Land usage will be generally outlined on a national and

regional perspective which will serve as an introduction to individual state land use characteristics. In all instances, agricultural land use and conversion will be emphasized.

In 1964 there was a total of 1.12 billion acres of total farmland, of which 358 million acres was actual cropland. In 1976 there was a total of 1.06 billion acres of total farmland, of which, 332 million acres was actual cropland. On the other hand, in 1964 there was a total of 390 million acres of urban land, which increased to 437 acres in 1976.⁹ These statistics coincide with the stated trend of declining agricultural land and increasing urban land.¹⁰ In terms of a national perspective, these statistics reflect an annual loss of 1.8 million acres from the agricultural base, while on the other hand, urban land uses increased 3.3 million acres a year.

Total farmland in the states that comprise the Lake States and the Northern Plains amounted to approximately 250.9 million acres in 1964 according to the U.S. Bureau of Census. This acreage declined to 243.7 million acres in 1976 which is a reduction of around 2.9% in fourteen years.

On the other hand, urban land as defined by the U.S. Bureau of Census increased from 15.7 million acres in 1964 to 23.1 million acres in 1976, which is a 47% increase in land devoted to primarily irreversible urban uses.

⁹These figures are compiled for the U.S. Census Bureau, Agricultural Statistics, by the Economic Research Service, U.S. Departments of Agriculture and Commerce, public land administering agencies and the Conservation Districts.

¹⁰Urban land uses as reflected in these statistics include urban, industrial, and nonfarm residential areas, parks and wild life refuges, military lands, roads, railroad and other miscellaneous uses.

Obviously, the land that was converted to urban uses did not entirely come from previously active or defined agricultural or farmland. Yet the large increase in urban land consumption lends credence to the expressed concern of loss to the agricultural land base.

In terms of an individual state perspective, the following table illustrates the changes that have occurred in farmland and urban lands.

TABLE 3
CHANGES IN LAND USE
URBAN AND FARMLAND
1964-1976 (1,000 Acres)

	1964		1976	
	Urban	Farmland	Urban	Farmland
Michigan	4,079	14,782	6,367	11,901
Wisconsin	2,551	21,156	4,695	18,109
Minnesota	4,369	30,796	5,463	28,845
North Dakota	1,046	41,466	1,221	43,118
South Dakota	1,151	44,951	1,616	45,584
Nebraska	1,011	47,756	1,616	46,834
Kansas	1,497	50,153	2,146	49,390

SOURCE: U.S. Department of Agricultural, Agricultural Statistics

Table 3 illustrates that every state in the case study area has experienced an increase in land that has been devoted to urban uses as defined. Also, four of the seven states in the case study area have experienced a loss in acreage of land used for farmland purposes. Only the states of North Dakota, South Dakota have expressed an increase in

farmland and in these instances, new innovations in farmland practices like irrigation, has contributed to the increase in farmland acreage.

These statistics lead to the second assumption relating to the loss of farmland acreage, or influences that may have lead to the creation of a state tax policy designed to preserve farmland.

The recognized loss of farmland acreage may have influenced the creation of a Preferential Tax System designed to preserve the farmland bare.

Finally, it is of value for the purposes of this report to compare the population change and the change in farmland acreage. Table 4 illustrates this comparison.

TABLE 4
POPULATION CHANGE COMPARED TO
FARMLAND ACREAGE CHANGE
1970-1975 (% Changes)

	Population Change	Farmland Acreage Change
Michigan	+2.6	-12
Wisconsin	+3.6	-11
Minnesota	+2.9	-6.3
North Dakota	+4.1	+.9
South Dakota	+2.5	+.03
Nebraska	+3.9	-2
Kansas	+1.4	-1.7

SOURCE: Author

Generally, speaking, the states that have experienced a significant increase in population have also lost the greatest farmland acreage. The

only exception to this trend is the state of North Dakota that experienced the largest percentage increase in population yet also increased in total farmland acreage.

Obviously, other influences may exist which lead to preferential tax assessment, the next portion of the report investigates the taxing system itself, and the potential influences that lead to farmland preservation measures.

PROPERTY TAXATION
INFLUENCING LAND USE CHANGE

Few subjects have evoked more controversy throughout history than the issue of property taxation and the manner in which this tax is levied and collected. One of the basic principles underlying the American Revolution was the desire to reform the method of property taxation that was imposed on Colonists to benefit a distant certainly remote monarchical government. Yet, as is certainly evident, the property tax persists. Withstanding revolution and continual efforts of reform, property taxation is still the major source of income for local government in the United States. "The property tax is nothing if not durable. It has been decried for generations as one of the worst of taxes, yet it remains the pillar of local government finance. All the while economists and politicians were forecasting that the property tax well was about to run dry, its producing power multiplied many times over until the tax, nationwide, now yields almost forty-five billion dollars annually."¹

The property tax is accused, among other things of being regressive, inequitable and difficult to administer, yet amidst all this criticism and seeming paradox the property tax is responsible for financing more than 20% of the civilian general expenditures of federal, state and local governments. What then is responsible for the durability of this frequently abhorred tax? Dick Netzer holds that the property tax is able to endure because of the ".... venerability and diversity of the property tax. It is

¹The Urban Institute Property Tax Reform edited by George E. Peterson. The John C. Luicoler Institute and The Urban Institute P.V. Updated literature has estimated the total amount of property taxes that are collected now exceeds 52 billion dollars.

an old institution and it is actually not a single national tax but an incredibly complex collection of taxes with literally thousands of local variations."²

A preponderance of the literature reviewed agrees that the major influence on contemporary United States property taxation stems from England. Yet to fully understand the durability of property taxation, a brief discussion of ancient tax procedures is worthwhile.

"In its origins, the land tax was doubtless conceived as a method of personal taxation. In primitive economies, which were agricultural for the most part, land value or produce was the best available measure of the tax paying capacity of the citizens. The ancient institution of the tithe, the progenitor of an important group of land taxes, was certainly grounded in the ability - to - pay thinking. (One of the four cardinal maxims of taxation defined by Adam Smith in the 18th Century). As the forms of tangible wealth multiplied and intangible property made its appearance on a large scale, the land tax was converted to an essentially impersonal levy. The latest trend toward personalization of the tax is thus completing a cycle."³

Proper taxes or specifically land taxes, were noted as early as 596 B.C. in Athens. During the Roman Empire these property taxes were further extended to include personal property, but later reverted back to a strictly land tax thus providing an early example of the cycle from land tax to personal property and back to land.

² Netzer, Dick: Economics of the Property Tax: Studies of Government Finance. The Brookings Institute, Washington D.C. 1966 p. 1.

³ Lindholm, Richard W.: Property Taxation USA: The University of Wisconsin Press 1967 p. 8.

Property taxation during the Middle Ages was not totally unlike that of earlier periods of history. To generalize, taxation during Medieval Ages was based on fiscal policies that "often amounted to the King's getting what he could ..." ⁴. The tithe was instituted in 1188, which was a tax levied on 10 percent of the land rents plus moveable property. During later stages of the Middle Ages, the taxation system began to rotate away from assessments on personal property and gradually became a land tax by the beginning of the eighteenth century. In this fashion, the medieval property tax system closely paralleled earlier tax efforts.

Early American taxation was largely based upon previous experiences in England, with a theoretical taxation approach that would apply to all property while in practicality it could only be expected to apply to land. A peculiar American twist on the British tax system was that of the 'Poll Tax', that measured the tax liability in "heads and hands" which enjoyed a certain degree of logical justification, and also initiated the first generally accepted tax on personal property.

The contemporary problem of poor administration actually has persisted for many decades and thus has given credence to contemporary criticism. "By the end of the American Revolution, most states had levied poll and property taxes. Collections were poor and public attitudes nonsupportive. Administrative organization was inadequate, and the will to develop an effective tax system was not yet apparent." ⁵ Fortunately, this period witnessed large amounts of non-tax revenues, and thus the early incentive to correct poor administrative procedures was not present. More importantly though, it was

⁴ Ibid., p. 9.

⁵ Ibid., p. 13.

this period (1790 - 1800) that established the property tax as the primary source of state and local revenues. In doing so, early tax organizers also established a broad sweeping tax institution that included:

1. A shift from area - measurement bases or from assessment based upon probable income to the market-value assessment standard.
2. A general adoption of an all-inclusive statement of taxable property and specification of broad exemption categories.
3. The development of improved, though still often rudimentary, administrative and equalization organization.
4. The initial development of special supplemental and/or in-lieu taxes for newly developed institutions and for types of property which did not easily come under the general-property tax rubric.⁶

Post Civil War taxation in the United States has experienced many new developments that have had a major affect upon the way in which taxes are now assessed. Increased emphasis upon improving tax administration has brought about state level intervention in local taxation, mainly through state equalization agencies and efforts at centralizing tax administration. Additional developments has seen the importance of property taxes as a source of state revenue decrease and also an increase in federal and state aid to local governments has now become a major supplement to local revenue producing ability.

Finally, it can be stated that U.S. property taxation developed out of an agrarian society and is now struggling to adopt into an urban society.

In addition to providing a revenue source for local government, property taxes have a significant affect upon land resources and the manner in which

⁶Ibid., p. 13.

these revenues are redistributed. "Almost every tax tends to reallocate wealth and resources by taking capital from the taxpayer to finance the functions of government. In this reallocation process, a high proportion of the funds collected through land taxes are often used for purposes that benefit the taxpayer and his family or that enhance and protect property values."⁷ In addition to these traditional means of reallocating resources, property taxation has other non-revenue affects upon land resources. Numerous studies about property tax reform indicate that an increased reliance upon "site value" taxation instead of taxing site improvements, would provide a "panacea for urban land use, prevent land speculation, and foster industrial development. In addition to these somewhat utopian objectives, property taxation has also been used to stimulate growth and development within various segments of the economy in developing nations. The country of Japan used a system of heavy taxation upon agricultural land to stimulate resource investment in non-agricultural activities while at the same time rapidly expanding the agricultural output.⁸ Similar development efforts have originated from taxation procedures in other countries, notably India and Mexico.⁹ These overt policies of taxation clearly indicate the

⁷ Barlowe, Ralieggh; Land Resource Economics The Political Economy of Rural and Urban Land Resource Use; Prentice-Hall Inc. 1958 p. 533.

⁸ Richard Bird puts forth a lengthy discussion about heavy taxation upon agricultural land in his book, Taxing Agricultural Land in Developing Countries. The main thesis throughout the discussing is that heavy agricultural taxation will stimulate innovation in agriculture and non-agricultural activities so as to off-set the affects of heavy taxes.

⁹ The tax system in Mexico reinvested revenues back into the agricultural sector which resulted in increased productivity, thus freeing up resources and labor into non-agricultural activities. India utilized a system of fixed assessments that assured fixed revenues, thus providing a stable revenue base for other development needs.

non-revenue influences of taxation, specifically as a catalyst for non-agricultural development. In this regard, it appears equally possible that property taxation has other de facto influences not as readily visible.

It is conceivable to assume that property taxes levied on farm operators would be horrendous, since the nature of farming is heavily land oriented. Therefore, in a tax system that is based on market value or "highest and best use", the tax burden would seem excessive. But actually, the tax burden carried by farmers on farm real estate as a percent of full market value is less than for other types of real estate. The reason behind this might be associated with two characteristics, "(1) more governmental services are provided in urban than rural areas, and (2) real estate values on a per capita basis are higher in rural than in urban areas, thus necessitating a lower mileage rate".¹⁰ In addition, there is reason to believe that tax assessment ratios in many instances is well below the required level. For example, "Kansas law now directs property to be appraised at its 'fair market' value and taxed at 30 percent of that value. But inflation and increasing demands for a dwindling resource - farmland - have withered the ratio.

Continued comparisons of land market values, sales prices and actual taxes paid show the ratio no longer is 30 percent. In many countries, the ratio is less than 10 percent".¹¹ These under assessments are most probably

¹⁰ Gloudemans, Robert J.: Use-Value Farmland Assessments Theory, Practice and Impact IAAO, Chicago, Illinois, 1974 p. 8.

¹¹ Barry Flinchbaugh, Property value: a great Kansas tax myth (mess) Hutchinson News, 8 November, 1977 p. 3. Professor Flinchbaugh further indicate that in Stevens County, in 1974, actual tax assessment was only 4.99% of market value. (Yes or No on Use Value Appraisal of Agricultural Land)

found in states where market values are still used as an appraisal base, and where farmland has not sold recently to provide an estimate of value.

Although there is ample documentation to believe that farmland may actually be underassessed, there is an equal amount of information to prove that taxes paid by farmers is a higher percentage of personal income than non-farm taxpayers. Table 1 illustrates this fact on a national basis.

TABLE 1

FARM AND NONFARM REAL ESTATE TAXES
AS A PERCENTAGE OF PERSONAL INCOME

YEAR	United States	
	FARM POPULATION	NONFARM POPULATION
1950	3.31	2.58
1955	4.67	2.69
1960	5.74	3.23
1965	5.79	3.47
1970	7.48	3.46

SOURCE: Use-Value Farmland Assessments: Theory, Practice and Impact

Table 2 illustrates the difference in tax burden with an average ratio of 1.74 to 1 on a national level.

In looking at this tax characteristic in the case study states, it becomes obvious that farm tax burdens may be excessive, especially when compared to a national average.

TABLE 2
TAXES LEVIED ON FARM REAL ESTATE
AS A PERCENTAGE
OF NET FARM INCOME

Case Study States

State and Region	1950	1960	1970	1975
Kansas	5.8	10.0	11.9	3.1
Nebraska	4.6	10.2	12.0	3.1
S. Dakota	6.0	8.2	10.9	3.3
N. Dakota	5.0	9.0	12.1	2.5
N. Plains States	5.35	9.9	12.15	3.0
Michigan	4.2	12.3	16.5	5.5
Minnesota	7.0	11.3	11.0	2.6
Wisconsin	7.3	11.1	12.5	4.5
Lake States	6.17	11.57	13.33	4.2
United States	4.8	9.0	11.8	2.8
Ratio				
Case Study States				
United States	1.2:1	1.2:1	1.1:1	1.3:1

SOURCE: Economic Research Service RET-16

In spite of the apparent under assessment that may be occurring on farmland, it is apparent that taxes might seem excessive to this segment of the population. This could be especially true at this time, because of the large and increasing fixed costs of farming, such as fuel, machinery, fertilizer and other needed operating expenses.

These taxation characteristics lead to the third assumption that may be regarded concerning possible influences on the conversion of agricultural land and resulting state taxation policies.

Real estate tax burdens assumed by farm operators and agricultural landowners are comparatively large, and thus influence landowners to seek a larger dollar return from the land through a change in use.

Since all but 11 states have passed some form of preferential tax legislation for agricultural and other preferred land uses, it is obvious that some motive must have been agreed upon in creating such tax reforms.

A brief description of the legislation enacted in the case study states may lead to some understanding of this legislative action.

Michigan - Restrictive Agreement/Circuit BreakerLaw Passed - 1973

The provisions of this law relate only to eligible landowners engaged in a farming operation. Eligibility may be granted to single owners, a partnership, an agricultural corporation, or joint tenants. These owners may enter into a contract with the Michigan Department of Revenue to keep agricultural land in that use for 10 years. Agricultural land that is eligible must meet one of the following requirements: (1) must have 40 acres that are devoted to agricultural or horticultural uses during 3 of the 5 previous years (2) a farm between 5 and 40 acres must have a gross income of \$100 per acre during 3 of the previous 5 years (3) a specially designated farm as determined by the State Department of Agriculture. Further, the land must be contiguous and meet other requirements for soil quality and drainage purposes. Breaking this contract in any manner imposes a tax equal to 100% of the current State equalized value which is payable in the year that the contract is broken.

Benefits accrued to the landowner entering into the contract come in the form of a circuit breaker which is a tax credit against his State income tax equal to the amount by which his real property tax exceeds 8% of household income, up to \$3,000 per year.

Wisconsin - Modified Restrictive Agreement/Circuit BreakerLaw Passed - 1977

The principal elements of the Farmland Preservation Program in Wisconsin include tax credits, an initial 5 year contract, local planning and zoning efforts, a 20 year rollback penalty, and State level administration. This program may be labeled a hybrid of the deferred taxation

program used by many states, with elements of restrictive agreements and circuit breakers used in Michigan. The level of tax credits (state income tax rebate) is based upon the land preservation measures enacted by the landowner and/or the local unit of government. Initial land preservation contracts signed by the landowner (contracts for 5 years) entitle the landowner to 50% of his eligible credit limit. Agricultural land planning or exclusive zoning enable the landowner to reap 70% of the eligible tax credit limit. If the local unit of government adopts an agricultural land preservation plan plus an exclusive agricultural zoning ordinance, landowners are entitled to 100% of the tax credit limit. These credits are granted only if landowners sign contracts to preserve their land for agricultural purposes. Contracts may extend to 25 years. The following table indicates the tax credit schedule available to eligible landowners.

WISCONSIN
FARM PROPERTY TAX RELIEF

Property Tax

Income*	\$500	\$1,000	\$1,500	\$2,000	\$2,500	\$3,000	\$3,500	\$4,000 Or More
0	400	800	1,150	1,500	1,800	2,100	2,350	2,600
5,000	280	680	1,045	1,395	1,710	2,010	2,275	2,525
10,000	80	480	870	1,220	1,560	1,860	2,150	2,400
15,000	0	200	600	975	1,325	1,650	1,950	2,225
20,000	0	0	200	600	975	1,325	1,650	1,950
25,000	0	0	0	0	400	800	1,150	1,500
30,000	0	0	0	0	0	0	400	800
34,000	0	0	0	0	0	0	0	160
35,000	0	0	0	0	0	0	0	0

*Income: Household income as defined for the Homestead tax credit program + property taxes not exceeding \$4,000.

Minnesota - Deferred TaxationLaw Passed - 1967

The law enacted in Minnesota, commonly referred to as the "Green Acres Law", is directed to landowners who derive 1/3 of the family income from the land or whose land produces \$3,000 total production per year plus \$10 per tillable acre. Additional recreation lands may also be eligible for this special tax treatment.

Tax benefits are derived to eligible landowners through a system of use value assessment, which considers only agricultural values in appraising the land. Mill rates are then applied irrespective of the influence of residential, commercial or industrial potentials. If land use changes, the tax differential between use value assessment and full market value is due. This tax also includes the differential determined for the proceeding 3 years for agricultural lands and 7 years for open space (recreational land).

North Dakota - Preferential AssessmentLaw Passed - 1973

"In 1973, North Dakota enacted a very limited preferential assessment law. Agricultural lands within corporate limits will be classified and valued as agricultural property. Such valuation will be uniform with assessed value of neighboring agricultural land not within corporate limits...".¹²

¹²Hady, Thomas F., and Ann Gordon Sibold: State Programs For the Differential Assessment of Farm and Open Space Land; Economic Research Service. Report No. 256 1974 p. 53.

South Dakota - Preferential AssessmentLaw Passed - 1967

Preferential tax assessment is afforded agricultural land within independent school districts. Eligible lands must have been used primarily for agricultural use for at least the 5 preceding years. Tax valuation will be determined by the production capacity, solid terrain and topography, the present market value of the land, location, plus other factors.

Nebraska - Deferred TaxationLaw Passed - 1974

The Nebraska legislature adopted an amendment to the State Constitution enabling agricultural land to be assessed taxes based upon "its actual value for agricultural use and not at the actual value it would have if applied to other than agricultural use if application for such special assessment is made pursuant to sections 77-1343 to 77-1348...".¹³

The law further states that lands that had received special assessments and have since changed uses will be subject to a deferred tax penalty equal to the difference between the special assessment and tax assessed to the land at market value. This penalty will revert back 5 years plus a 6 percent additional charge.¹⁴

¹³ Nebraska Statute; Section 77-1343 to 1348, p. 1501.

¹⁴ Although the legislation was adopted in 1974, the implementation of the law has been hindered by two Attorney General Opinions. The Opinion's state that in order to comply with the law, the land must be located in a zoning district that allows no use but agriculture. No county or city which has adopted zoning has agricultural zoning districts which are exclusive enough to qualify any further challenges to such exclusive zoning could result.

Kansas - Preferential Assessment

Law Passed - 1976 (By Voter Referendum)

In 1976, Kansas voters approved a constitutional amendment authorizing the Legislature to implement a process for assessing farmland on the basis of its use value or what it will produce in terms of agricultural commodities.

Since that time legislative committees have struggled to devise an implementation system to achieve its legislative intent. To this point no system has received total legislative approval.

PERCEPTIONS OF PREFERENTIAL TAX PROGRAMS
EXAMINING THE CHARACTERISTICS IN
THE CASE STUDY STATES

The previous description of the programs created by the case study states indicates that there are numerous differences in particular objectives that are intended to be accomplished. On the other hand, several states have enacted programs that are of the same general nature (i.e., preferential assessment, deferred taxation, restrictive agreements).

In many instances, this is not unusual given the myriad of social, economic and political differences that exist from one state to the next.

Thomas Hady puts forth the notion that "these laws...stem from the tremendous upsurge of interest in ecology, open space and similar problems as well as from the belief that these laws can help guide development."¹

In the time span since Maryland first passed its law to provide preferential assessment of agricultural lands, considerable study and review has been conducted on the affects of these laws. Instead of merely answering an environmental issue regarding the preservation of farmland and open space as a direct objective, current opinions hinge on the idea that preferential assessment redistributes income as a direct result, and only preserves agricultural land secondarily. In fact, recent evaluations of simple preferential assessment laws seriously question its ability to accomplish the original objective of guiding development. "With respect to the goal of retarding the conversion of farm and other open land,

¹ Hady, Thomas F. and Ann Gordon Siebold: State Programs for the Differential Assessment of Farm and Open Space Land, Economic Research Service, Report No. 256, 1974, p. 1.

differential assessment is marginally effective and its cost in terms of tax expenditures is high, in most cases so high as to render it an undesirable tool for achieving this goal."²

Further criticisms of preferential assessments include the idea that such laws actually provide tax loans or concessions to developers who are speculating on farmlands that are eligible for such tax credits. With such apparent problems and contradictions in the programs of preferential assessment to this point, a very appropriate question is, what is the exact purpose of preferential assessment laws?

The previous discussions on population growth and property tax burdens were developed as assumptions underlying the creation of individual programs in the case study states. To restate these assumptions they are:

- I. Population growth has contributed to the loss of agricultural land thus influencing the creation of state legislation.
 - Ia. The recognized loss of farmland may have influenced the creation of a Preferential Tax System designed to save farmland.
- II. Real Estate tax burdens of farm operators are comparatively large, thus influencing the creation of state legislation to redistribute these tax burdens and thus assist in preserving farmland.

In order to more clearly compare the characteristics of population growth, farmland loss and tax burden, the following table is presented as a simple summary of each states situation.

²Untaxing Open Space: An Evaluation of the Effectiveness of Differential Assessment of Farm and Open Space. Regional Science Research Institute. Superintendent of Documents, U.S. Government Printing Office April, 1976 p. 115.

TABLE 1
COMPARATIVE SUMMARY
POPULATION CHANGE-FARM ACREAGE CHANGE

State	Farm Tax Burden				Farm Tax ²		Ranking Total
	Population ¹ Change	Rank	Farm Acreage ¹ Change	Rank	Burden	Rank	
Michigan	+2.6%	5	-12.0%	1	5.5%	1	7
Wisconsin	+3.6%	3	-11.0%	2	4.5%	2	7
Minnesota	+2.9%	4	-6.3%	3	2.6%	5	12
N. Dakota	+4.1%	1	+9%	7	2.5%	6	14
S. Dakota	+2.5%	6	+0.03%	6	3.3%	3	15
Nebraska	+3.9%	2	-2.0%	4	3.1%	4	10
Kansas	+1.4%	7	-1.7%	5	3.1%	4	16

SOURCE: Author

1 Computed from 1970 through 1975

2 Computed for 1975

From a comparative standpoint, considering all three characteristics as outlined in this discussion, the case study states would rank in the following descending order with regards to severity of problems.

<u>State</u>	<u>Program in Effect</u>
Michigan	Restrictive Agreements
Wisconsin	Restrictive Agreements (Modified)
Nebraska	Deferred Taxation
Minnesota	Deferred Taxation
N. Dakota	Preferential Assessment
S. Dakota	Preferential Assessment
Kansas	Deferred Taxation ¹

1 Not implemented at this time

Establishing these characteristics as a factual basis for the precise legislation that was created, it is now time to explore actual opinions from state level officials regarding their perceptions as to why a particular preferential tax program was chosen.

The manner in which these opinions have been obtained is through the use of a short opinion questionnaire sent to the administrative head of each of the following state agencies.

1. State Planning Agency - (Executive Branch)
 2. State Department of Taxation
 3. Legislative Research Division
 4. Agricultural Economics Department - (appropriate State University)
- (See appendix A for further rationale and information).

The fundamental objective in using the opinion survey is to see what relationship exists between the actual preferential program that has been created, and the factual characteristics that may have influenced the particular legislative action.

The survey will be presented question by question, with percentage responses being given since in several instances, more than one response was chosen.

STATE FARMLAND
PRESERVATION PROGRAM
PROGRAM INFLUENCE SURVEY

I. Agency Name _____

II. Which broad area category listed below had the greatest influence on the creation of the current program?

82% A. Farming Interests
18% B. Nonfarm Interests
____ C. Other

III. Which broad area category listed below most strongly opposed the program as it is now designed?

7% A. Farming Interests
40% B. Nonfarm Interests
53% C. Other

IV. Of the listed categories below, which one most closely explains the objectives of the program as it is now designed?

39% A. Reduce the property taxes of farm operators
11% B. Control land use
39% C. Preserve Farmland
11% D. Control or curb population growth of cities (reduce sprawl)

V. Please check the response that best describes the success of the program as defined.

7% A. Very Successful
27% B. Moderately Successful
13% C. Moderately Unsuccessful
20% D. Very Unsuccessful
33% E. Difficult to Determine

VI. If, in your opinion, there are program changes needed, please explain in a brief general description what changes should occur.

VII. Which of the following population groups views farmland preservation as a critical need (your opinion) (More than one response may be indicated).

<u>54%</u>	A. Farmers
<u>23%</u>	B. Nonfarm Rural Residents
<u>19%</u>	C. Urban Residents
<u>4%</u>	D. Businessmen
<u> </u>	E. Developers

In addition to the previous general analysis, it is felt that further investigation of questions 4 and 5 will provide further insight into why a particular preferential program was chosen. To do this, each of the two questions will be presented as responses coming from states that have similar programs (i.e. preferential assessment, deferred taxation, restrictive agreements).

Question IV

Of the listed categories below, which one most closely explains the objectives of the program as it is now designed?

Preferential Assessment	Deferred Taxation	Restrictive Agreements
Reduce farm Property taxes Control land use	38% Reduce farm Property taxes 25% Control land use	60% Reduce farm Property taxes Control land use
75% Preserve farmland 25% Control population	25% Preserve farmland 13% Control population	40% Preserve farmland Control population

Question V

Please check the response that best describes the success of the program as defined.

Preferential Assessment	Deferred Taxation	Restrictive Agreements
Very Successful Mod. Successful 25% Mod. Unsuccessful 25% Very Unsuccessful 50% Difficult to Determine	Very Successful 30% Mod. Successful 10% Mod. Unsuccessful 30% Very Unsuccessful 30% Difficult to Determine	25% Very Successful 50% Mod. Successful Mod. Unsuccessful Very Unsuccessful 25% Difficult to Determine

The forgoing analysis did not produce any unanimous³ results, rather the collection of opinions do indicate various general perceptions of the

³Unanimity in the responses obviously did not occur. This, in the authors estimation is appropriate given the potential for unfamiliarity, individual perception and personal bias that could enter into the responses.

programs of this survey into context, the following statements are offered as a summary to the information received.

- I. *Farming interests had the greatest influence on the creation of the preferential tax program. (Not necessarily the particular aspects of the program).*
- II. *Nonfarm interests and other groups posed the greatest opposition to the creation of the preferential tax program.*⁴
- III. *The objective of reducing farm property taxes and preserving farmland was the major thrust of the preferential tax programs.*
- IV. *No clear opinion has been formed on the successfulness of the programs to this point. It appears that additional effort should be placed on program evaluation.*
- V. *Farm interest groups most clearly view the importance of a preferential tax program.*

With respect to the further detail that was generated from questions 4 and 5, the following statements are offered in summary.

Preferential Assessment (N. Dakota, S. Dakota)

1. Those case study states that adopted a simple preferential assessment law were most interested in preserving farmland.
2. The successfulness of the program is in doubt with no apparent evaluation mechanism available.

Deferred Taxation (Nebraska, Minnesota, Kansas)

1. The objectives of the tax program is a combination of tax reduction, land use control and farmland preservation.

⁴Specific mention was made of opposition from lawyers, estate planners, appraisors/assessors and financial institutions in the states that have either simple preferential assessment or deferred taxation laws.

2. The successfulness of the programs is marginal with no apparent evaluation efforts available.

Restrictive Agreements (Michigan, Wisconsin)

1. Reduction of property taxes is upper most, with farmland preservation being a secondary goal.
2. Perceptions of success levels are comparatively high with evaluation mechanisms appearing marginal.⁵

⁵The apparent difficulty in determining the effectiveness of these two programs stems from those state agencies in this instance that are not closely tied to its administration evaluation mechanisms are easily derived since, in both states, individual participants must sign contracts with established agencies, Michigan - Department of Treasury, Wisconsin - Department of Agriculture, Trade and Consumer Protection.

SUMMATION
AND
RELEVANT CONCLUSIONS

The primary purpose of this entire research exercise was to attempt to understand why the various states examined created a preferential tax program, and also determine why a specific approach was chosen.

In retrospect, the seven states can be generally categorized into two separate groups. These two groups are based upon the factual characteristics that were examined as possible influences. Oddly enough, the states are already appropriately grouped by the U.S. Department of Agriculture for research and statistical purposes. These two categories are referred to as the Northern Plain States and the Lake States.

The Northern Plains states are not affected by population growth, farmland loss and excessive tax burdens to the degree that the Lake States are. In fact, it appears that all states are administering "de facto" preferential assessment (refer to Table 1, Chapter 3). This may lead to some rationale behind the particular preferential tax program chosen by the Northern Plains States (simple preferential assessment and deferred taxation). The apparent problems are not as severe thus the commitment to a particular program is not as great. Simple preferential assessment and deferred taxation require a minimal commitment as opposed to the restrictive agreement approach. Eligible landowners in the Northern Plains States participate in the program simply by being eligible, not by any conscious effort from an individual standpoint.

In comparison, landowners in the Lake States must make a commitment to participate in the program, either by signing a contract to restrict the possible uses of eligible land for a specified time span, or being subject

to tax penalties if uses change. These approaches illustrate a commitment that might be influenced by the population growth, farmland loss or tax burden of these three states.

The important point to stress is the fact that all three programs have elements that reduce tax burdens of farm operators. The amount of reduction is based upon very local conditions of assessment, capitalization return from the land and other variables.¹ But from the standpoint of a land use control device, preferential tax programs are of marginal significance.

With respect to the situation in Kansas, the legislature has committed themselves to a preferential tax program that may only affect the assumed tax burdens of farm operators.

As previous investigation has pointed out, population growth, farmland loss and tax burdens in Kansas are comparatively low. Thus, the program commitment may not justify more stringent efforts as implemented in the Lake States for example.

If the objective is to further reduce tax burdens on farm operators, the preferential tax program in Kansas is appropriate.

If the overriding concern is to preserve farmland from conversion, the simple application of a preferential tax treatment would not offset the economic gains from a change in land use.

Since Kansas has not completely implemented its preferential tax program, an appropriate recommendation might be to re-evaluate the objectives and to closely align the ultimate tax approach to the problem at hand.

¹Chapter V of Untaxing Open Space provides an insightful examination into the amounts of tax benefits a particular landowner may be entitled to (refer to pages 113 and 114).

APPENDIX A

Numerous state agencies could have been identified as suitable resource providers for this study. But the contention of the author in selecting the indicated state agency was that those agencies could provide the greatest insight into the study at hand. This contention is based on the following rationale:

State Planning Agency- Information was solicited from State Planning agencies in the hopes of receiving a State planning perspective of farmland preservation and its relationship to other state land use issues.

State Department of Taxation- Most state programs have direct or indirect tax affects. Information received from this agency would shed light on the possible tax saving objective to farm operators, and also indicate successes of the particular program.

Legislative Research- Comments from Legislative Research agencies were solicited in the hopes of gathering specific information about the rationale behind the particular piece of legislation. Legislative committee hearings and other study information is usually a function of the agency, thus providing these officials with unique insight.

Department of Agricultural Economics- It was found that this agency often was responsible for providing assistance in preparing the legislation. Also, many Departments were also charged with the responsibility of program education. In this sense, their comments were deemed as being important to the study.

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AN ANALYSIS OF FACTORS INFLUENCING
THE
CREATION OF LEGISLATION
TO
PRESERVE AGRICULTURAL LAND

by

BRIAN P. O'CONNELL

B.S. University of Wisconsin

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Kansas State University

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An Abstract

Within the time span of nearly three decades, almost every state in the Union has addressed the problem of vanishing farmland. Numerous approaches are being implemented with regards to the problem of diminishing agricultural acreage. Many states have enacted a program of preferential taxation towards agricultural land. These programs generally fall into three categories, differential assessment, deferred taxation, or restrictive agreements. In addition to these tax incentive programs, other states are using systems that include tax circuit breakers, exclusive agricultural zoning or direct purchase of development rights.

In any event, a myriad of programs with various objectives are being tested with regards to saving farmland. Some states believe their specific problem is urban sprawl which gobbles up available farmland. Other states attempt to reduce tax burdens on farm operators, thus helping to make farming and agricultural enterprise more profitable.

In view of these many varying factors, the purpose of this investigation is to try and determine what characteristics lead to the creation of preferential taxation or other laws designed to preserve farmland. The specific states of Michigan, Wisconsin, Minnesota, North Dakota, South Dakota, Nebraska and Kansas were analyzed. Further, specific bias was entered into this study with

regards to the potential influence of population expansion, loss of farm acreage and property tax burden. The comparative characteristics of these states were analyzed in the hope of obtaining further insight into the "Use Value" issue in Kansas.

Characteristics of Population and Farmland Lost

The seven states analyzed universally illustrated recent (1970-75) population increase. Further, from a geographic perspective the largest rate of population growth was in the rural areas either adjacent to metropolitan regions or completely outside the influence of large communities.

In comparing the rates of farm acreage lost, all of the states analyzed lost farmland except North and South Dakota. The rates of acreage lost range from 19% in Michigan to 1% in Kansas. Generally, the states adjacent to the Great Lakes experienced the greatest decline in farmland areas.

Characteristics of Property Taxation

Property taxes have been used for other purposes besides generating local revenues. Several foreign nations use the system of taxation to redistribute economic activity and foster specific types of activities. Property taxation also has an influence on land use. In fact, numerous states are using the property tax as a method of preserving farmland.

Ironically, in some instances, farmland is underassessed, thus receiving 'de facto' preference in assessment.

Real estate taxes paid by farmers is larger than taxes paid by non-farmers when compared to a percentage of income. In addition

the real estate taxes paid by farmers in the states analyzed was greater than the national average. Thus, property taxes may influence legislation to preserve farmland.

Conclusions

Information received from various state agencies indicates that the programs created in the states analyzed generally is designed to reduce property taxes as a primary objective. Farm interest groups are most responsible for influencing the creation of the particular program.

Careful analysis and evaluation of the problems and program objectives should be undertaken before Kansas finally implements its' legislation.