Urban Growth Management Study

Property Tax Deferral Policy Inside Urban Growth Boundaries

Prepared by
Peter Wilson & Associates

December 1990

Oregon Department of Land Conservation and Development

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3/8/91

Please Note

The Department of Land Conservation and Development has commissioned this report as part of its Urban Growth Management Study. In issuing this report, the department is not endorsing all the recommendations contained in it. The department is in the process of preparing a summary report which will contain proposals for improving growth management in Oregon. It will draw on the analysis and recommendations in this and other contractor reports and should be available for public distribution by mid April 1991.

The department expects to recommend the formation of several task groups to consider the proposals the department's summary report contains. The task groups will be asked to develop specific recommendations for either LCDC rulemaking in 1992 or legislative action in the 1993 session of the Legislative Assembly. The proposals in the department's report will serve as starting points; the task groups will be invited to add, drop, or modify proposals.

If you have any questions about the contents of this report, please contact John Kelly at DLCD, 373-0070.

PROPERTY TAX DEFERRAL POLICY INSIDE URBAN GROWTH BOUNDARIES

Prepared for the

Oregon Department of Land Conservation and Development

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ACKNOWLEDGEMENTS

I would like to acknowledge the generous assistance of many individuals who have devoted time to this study. The following individuals assisted in collecting and interpreting data on tax-deferred properties in the six counties studied: Neal Galash, Multnomah County Division of Assessment and Taxation; Lorna Stickel, Planning Director for Multnomah County; Steven Kelly, Washington County Department of Land Use and Transportation; Jerry Hanson, Director and John G. Krautscheid, Farm Appraisal Supervisor, Washington County Department of Assessment and Taxation; Tim Burchfield, Jackson County assessor's office; Al Uney and Wenda Hoover, Clackamas County Department of Assessment and Taxation; George Reed, Planning Director, Deschutes County.

Paul Hargraves of the Lane Council of Governments provided excellent programming and assistance with interpretation for Lane County.

Thanks to Hanley Jenkins II, Planning Director for Union County for case study information. Thanks also to Tamara L. DeRidder, City Planner for Sandy.

I am also grateful to ECO Northwest and Greg Winterowd of David Newton and Associates for help in obtaining data from Deschutes County.

Finally, many thanks to the Appraisal Group, and to the Lane Council of Governments, for their work as subcontractors on this project.

FOREWORD

Peter Wilson and Associates prepared this report under contract to the Oregon Department of Land Conservation and Development. This contract is one of four study contracts comprising the Department's Urban Growth Management Study. Other studies examine annexation and urban growth management, local government infrastructure funding, and growth management in four fast-growing urban areas of the State. Copies of the study reports are available by contacting the Department.

The views contained in this report are those of the contractor and not necessarily the views of the Department. Readers reviewing this report are encouraged to send comments to the Department at the address contained on the title page. The Department plans to issue a report summarizing results from all four urban growth management study contracts and stating the Department's recommendations.

John C. Kelly, Project Manager
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SUMMARY

Findings

Tax-deferred acreage inside urban growth boundaries

- A significant amount of the acreage covered by Oregon's farm and forest assessment programs is located inside urban growth boundaries (UGBs). In many communities, this tax-deferred property constitutes one-third to one-half of the supply of vacant land. However, typically over half the tax-deferred property in a UGB lacks access to urban services, and is not yet ready to be developed at urban densities.

- Most tax-deferred land is in large ownerships of 20 acres or more, but a significant portion (20 to 30 percent) has been partitioned into parcels of ten acres or less. These small lots may have limited potential for future urban-scale development.

- Although the small parcels may prove difficult to develop, almost all tax-deferred land is eventually converted to urban uses if demand is strong. In Washington County, landowners withdrew seven percent of the tax-deferred acreage inside UGBs last year, selling their property to developers or developing it themselves. Older cities such as Milwaukie contain virtually no tax-deferred acreage.

The cost of tax deferral

- Tax-deferred properties would produce significant tax revenues if taxed today at market value rather than farm or forest-use value, reducing property tax rates in the areas studied by 0.5 to 3 percent. Oregon's new tax limitation law--Measure 5--will reduce the tax shift due to farm and forest property in the future because it limits the tax rate that would apply to market value. The tax shift is also offset by a charge that is collected when deferred properties are converted to non-farm or non-forest uses. This "rollback" tax typically recoups about five years worth of taxes at full market value.

Tax deferral in landowner decision-making

- Tax deferrals for farm and forestland affect both the timing of development and intensity of development. If the assessment is low, owners can better afford to wait longer before converting their land to urban uses. As urban areas grow over time, land values increase, and the optimal intensity of use for a parcel also increases. A site suited only for large-lot homesites at one point may be suitable for a shopping center or apartment building at a later point. Since tax deferral allows the property owner to wait while demand grows, it actually encourages, in the long run, a higher-density development pattern, promoting a common goal of growth management.

- However, once services and demand can support urban-scale development, continued tax deferral for a farm or forest property can create growth management problems. Tax deferral may exacerbate shortages of land zoned for particular uses and confer monopoly power on land owners to command inflated prices. Moreover, the tax revenue forgone on the farm and forest parcels continues to climb, while other landowners shoulder the cost of public services for the property.

- Withdrawal of tax deferral would cause landowners to sell or develop their properties sooner than they would otherwise. Property taxes, which are only around $10 per acre under deferral, would jump to $500 or more per acre if property was assessed at market value. Owners who can now cover the cost of holding farm or forest property with the net income from the land would need to draw on other sources of capital to continue to hold the property. Financial hardship for those without other sources of capital could be prevented by allowing owners to accrue tax liabilities until their property was sold or developed, when cash would be available to settle tax debts. However, the attractiveness of maintaining the farm or forest use would still be much reduced.

- Although the general effect of withdrawing tax deferral would be an earlier conversion to urban use, individual responses would depend on several factors. Farmers and homeowners often make their development decisions based on personal events, such as retirement, death of a family member, or relocation. Unless forced by a liquidity problem to sell their land, some would not change their plans. By contrast, developers and investors would be more responsive to the decreased attractiveness of holding undeveloped property.

The impact of Measure 5

- Measure 5 phases in a limit on property taxes of 1.5 percent of market value. Most owners of farm-deferred property in urban areas will not see a tax reduction, because their taxes are already under 1.5 percent of market value. Measure 5 does not affect the assessed value of tax-deferred properties. Some have speculated that taxes on farm and forestland could increase if the legislature provided authority for assessors to impose higher nominal tax rates than the current levy process allows[1], but the likelihood of that seems somewhat remote.

- Under Oregon's existing property tax system, special assessments shift tax burdens to other taxpayers, without directly reducing revenues to local governments. With passage of Measure 5, in many areas, taxes forgone on farm property will no longer be made up by other taxpayers. Since taxpayers will be subject to a $15 per thousand limit on property taxes, many local jurisdictions will not be able to collect their full levy. Therefore, any increase in assessed values will increase the taxes collected, and withdrawing tax deferral will increase government revenues, rather than directly reducing taxes paid by other taxpayers.

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1 Mike Forrester, "Measure 5 detractors foresee steeper taxes," Capital Press, Oct.12, 1990. Higher nominal tax rates would only increase the overall tax burden for the properties--such as farm and forestland--not already at the 1.5 percent limit.

- Measure 5 will virtually eliminate the rollback taxes which are due when a property is withdrawn from tax deferral, unless the tax deferral laws are revised. Since rollback taxes normally equal 10 to 12 percent of market value, and Measure 5 sets a limit of 1.5 percent for all property-related taxes, the Measure will drastically reduce rollback collections. However, it may be possible for the legislature to redefine the rollback requirement so that it is not subject to the Measure 5 limit.

- Measure 5 will create incentives for partitioning farm and forest property, where a portion of an existing parcel is not in deferral (e.g., a homesite). If the portion of the property subject to full taxation were split off, it would then be subject to the Measure 5 limits and would pay lower taxes. The portion which is specially assessed would be taxed the same as before.

- The implications of Measure 5 for growth management are mixed. The lower tax burden for vacant properties not in farm or forest deferral will reduce the tax-induced pressure for premature development, but the problem of financing new services to developing areas will grow more serious, since Measure 5 applies not only to ad valorem taxes, but also to charges imposed on new development.

Recommendations

- Oregon should retain farm and forest deferral inside urban growth boundaries. Wholesale elimination of these special assessments inside UGBs would cause premature, low-density development; needlessly disrupt farming operations; and consume open space unnecessarily.

- However, the legislature should provide local governments the authority to selectively withdraw tax deferral in well-serviced areas. Active growth management requires such tools for targeting development when and where it is most appropriate. Selective withdrawal of deferral could promote the filling in of vacant land in built-up areas, and alleviate development pressure on more remote areas.

- Cities and counties should choose individually whether to use withdrawal of tax deferrals as a growth management tool, since both market conditions and growth management policies vary widely from one community to another. Where jurisdictions choose to phase out deferrals, withdrawal should be conditioned on the presence of full urban services.

- Where tax deferral is withdrawn, owners should be able to accrue annual tax obligations until the property is sold or developed. Otherwise withdrawal would cause unnecessary dislocation and financial hardship for landowners without access to capital to pay taxes. Liability for rollback taxes should be canceled, as is done generally when the government rather than the landowner initiates termination of tax deferral.

- Farm and forest deferral laws should discourage partitioning by requiring minimum parcel sizes. With a few exceptions, applications for deferral should not be accepted for parcels of ten acres or less. The fragmentation of farm and forestland not only reduces its productivity, it also makes future development at urban densities difficult or impossible. By providing preferential tax status to large-lot homesites, the tax deferral laws promote what they were intended to discourage: the premature loss of productive farm and forestland.

- Oregon should change its open space assessment program so local governments can employ it more extensively. The program provides tax deferral for undeveloped properties that do not qualify for farm and forest deferral, but that local governments wish to reserve, at least temporarily, as open space. The current program provides insufficient incentives, in the form of tax reduction, to elicit widespread participation. With more favorable terms, and requirement of a limited time commitment to open space, the program would provide a valuable land conservation tool. It could be offered selectively where full taxation might be undesirable, such as in environmentally sensitive areas and areas targeted for future parkland acquisition. Some properties which would no longer qualify for farm and forest deferral under the recommendations made here, would be candidates for open space status.

CONTENTS

INTRODUCTION

The Department of Land Conservation and Development (DLCD) commissioned this study as part of its Urban Growth Management Study, which has two purposes: first, to assess the effectiveness of the growth management components of the statewide planning program, and second, to develop proposals for improving growth management in Oregon.

This study investigates whether the availability of farm and forest deferrals inside urban growth boundaries (UGBs) impairs growth management, and whether the tax laws should be changed to support better growth management.

Like most states, Oregon provides preferential property tax treatment for farm and forestland. Qualifying properties are assessed at farm-use or forest-use value, based on the farm or forest income they produce, rather than at market value, which reflects "highest and best use", i.e. the use yielding the highest income. In urban areas, market value greatly exceeds farm-use value because it anticipates future conversion to a more intensive use. The law does not limit the availability of farm and forest assessment in built-up areas or in growing areas zoned for development. Since preferential assessment policies are meant to keep land in farm or forest use, while growth management policies endeavor to phase development, a potential conflict exists.

How farm and forest deferral works

Oregon has several special assessment laws for farm and forestland. The laws apply different rules to farmland depending on whether or not it is in an Exclusive Farm Use (EFU) zone. In an EFU zone, land used primarily to make a profit in farming automatically qualifies for farm-use assessment. No income test is applied, and land under dwellings also receives special assessment. In areas not zoned EFU, land must have yielded a minimum gross income in three of the five previous years. The requirement is for minimum gross income of $500 for parcels less than five acres; $100 per acre for parcels between five and 20 acres, and $2,000 gross income for parcels over 20 acres.[2]

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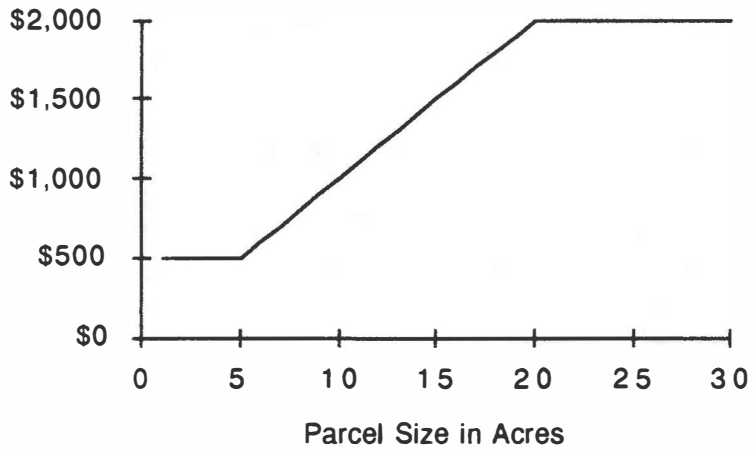
2 Oregon Department of Revenue, *Assessment of Farmland not in an Exclusive Farm-use Zone*. Information Circular, Nov. 1989.

Farm-use activities include raising, harvesting and selling the following:

- orchard and field crops
- livestock, poultry, and fur-bearing animals
- aquaculture
- honey bees
- dairy cows
- Christmas trees
- hardwood trees grown on cropland

Chart 1
Gross Income Minimums by Parcel Size
For Farmland Not in an Exclusive Farm Use Zone

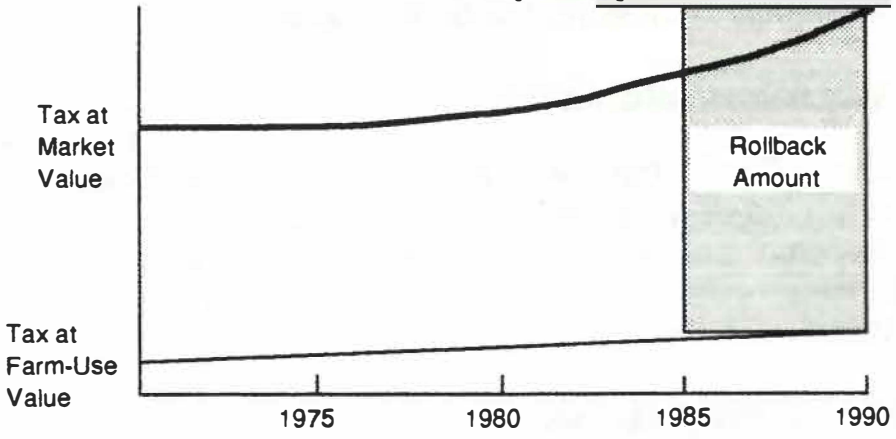


Farm-use value is determined based on average net farm income for particular regions and soils. Farm-use values usually range from $100 to $500 per acre.

In most of the urban areas studied, little or no land inside UGBs is zoned for exclusive farm use.

Farm land is disqualified from tax deferral when it does not meet the income test, when it is no longer used as farmland, or when it is platted for subdivision. Upon disqualification, additional taxes are assessed, often referred to as "rollback" taxes. Assessors determine the rollback amount by calculating how much additional tax would have been paid in the current year in the absence of special assessment, and multiplying the amount by five, or the number of years in special assessment if less than five.[3] The assessor does not calculate the property's market value for prior years. The rollback tax recoups part of the tax savings provided to farm properties while they are in farm use.

Chart 2
Rollback Taxes Due When Farmland
Ceases to Qualify for Special Assessment



3 In EFU zones outside UGBs, the maximum is ten years.

Forest assessment programs

The forest tax programs are similar to the farm tax programs. For participating properties, timber itself is not subject to tax until it is harvested, and land is assessed at its value in forest use, rather than at market value. Forest-use values can range from $20 to $250 per acre. There are three forest tax assessment programs: Western Oregon Severance Tax, Eastern Oregon Severance Tax, and Western Oregon Small Tract Option. The programs vary in their methods for determining land value, and in the severance tax imposed on harvested timber. Unlike the farm assessment programs, the forest programs require minimum acreages to qualify, ranging from two acres for the severance tax programs to ten acres for the small tract option. However, they do not require any minimum income from the property, which would be impractical given the long rotations needed for forestry. Rollback mechanics upon disqualification are similar to those for the farm programs.

Portions of properties not specially assessed

A property can still qualify for farm or forest assessment even if part of the property is not in farm or forest use. The most common example is a home on a farm property. The land under the house, usually an acre, is assessed at market value, unless the owners derive over half their income from the farm unit.[4]

Special assessment and land use planning

Aside from the distinctions drawn between land zoned for exclusive farm use and other land, availability of preferential assessment is not conditioned on land use plan designations. Farm and forest assessment may be obtained within UGBs, within city limits, and within any type of zone, as long as the statutory requirements are met. In a recent opinion, the Oregon Attorney General's office concluded that the Department of Revenue does not have authority to link qualification for farm or forest deferral to compliance with local land use plans or LCDC goals.[5]

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4 This example is for farmland not in an EFU zone. In EFU zones, land under farm dwellings gets special valuation automatically.

5 Oregon Department of Justice, General Counsel Division, Letter to Susan Brody and Richard Munn, "RE: Opinion Request OP-6390", Oct.11, 1990.

Study approach

To assess the role of farm and forest tax deferral in helping or hindering growth management, the Department of Land Conservation and Development specified that the following tasks be completed:

- Inventory land receiving farm or forest tax deferral within the urban growth boundaries of several counties. The counties selected were: Clackamas, Multnomah, Washington, Deschutes, Lane and Jackson.

- Survey city and county planning directors for their observations on farm and forest tax deferral growth management in urban areas.

- Assess the consequences of withdrawal of tax deferral for different types of landowners.

- Evaluate tax deferral as a growth management tool.

- Develop a proposal for changes in farm and forest tax law if they are needed.

FINDINGS

A. Amount of tax-deferred land inside UGBs

This section catalogs the amount of property receiving farm or forest tax deferral inside a sample of urban growth boundaries. The sample is drawn from six counties. Five comprise DLCD's urban growth management case study areas: Multnomah, Washington, Clackamas, Deschutes and Jackson counties. The sixth is Lane County, where a geographic information system maintained by the Lane Council of Governments provides data on tax-deferred property which is unavailable elsewhere.

For each UGB area, tax assessment data was collected, to find answers to these questions :

- How many acres of tax-deferred property exist inside the UGB?
- What is the distribution of parcel sizes?
- How significant is the tax-deferred acreage as a portion of the vacant land supply in the UGB, and in communities within the UGB?
- How is the land zoned, and how much of it has access to urban services, making urban-scale development possible today?
- How many acres are classified as forestland rather than farmland?
- How many acres are used as small-parcel homesites, possibly making them unavailable for future redevelopment?
- What is the assessed value, and the approximate market value of the tax-deferred properties?
- How large is the tax shift attributable to tax-deferred properties?

For the Eugene/Springfield UGB in Lane County, additional information was collected, with assistance from the Lane Council of Governments (LCOG). This additional information has been assembled for comparison with an earlier study by the Bureau of Governmental Research and Service titled: "Urban Area Farm Tax Deferrals, A Case Study".

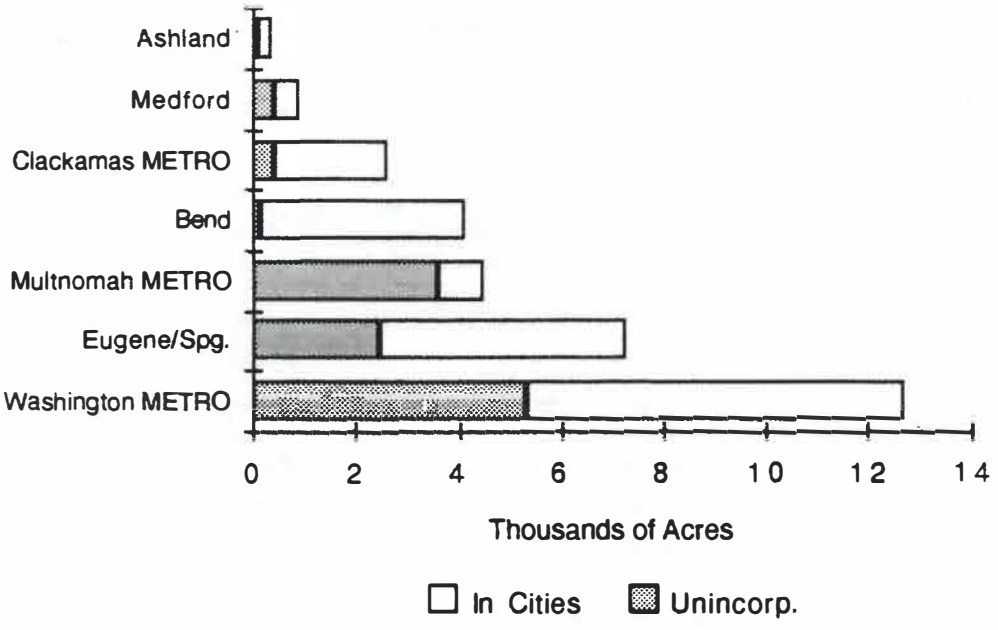
Additional questions addressed for Lane County included the following:

- How is the land being farmed, e.g., crops, orchards or grazing?
- What are the characteristics of the owner, e.g., a household living on the property, absentee owner, corporation or developer?

Summary

In the sampled urban growth boundaries, specially-assessed farm and forestland is generally concentrated in unincorporated areas, although cities also contain significant acreage. For example, in the Eugene/Springfield area, 66 percent is outside city limits, and in the Bend UGB, 97 percent is outside city limits. In the METRO UGB[6], 53 percent of the acreage is outside city boundaries.

Chart 3
Acreage of Tax-Deferred Land
Inside Urban Growth Boundaries



6 The METRO urban growth boundary encompasses the Oregon portion of the Portland metropolitan area.

Table 1
Acreage of Tax-Deferred Land
Incorporated and Unincorporated Areas

	Total	City	Uninc	% Uninc
METRO UGB				
Multnomah	4,490	3,617	873	19%
Clackamas	2,610	392	2,218	85%
Washington	12,704	5,313	7,391	58%
Total METRO	19,804	9,322	10,483	53%
Sandy UGB	775	32	743	96%
Bend UGB	4,108	134	3,974	97%
Eug/Spg.UGB	7,270	2,466	4,804	66%
Ashland UGB	373	123	250	67%
Medford UGB	898	425	473	53%

In most jurisdictions, unincorporated land has little access to urban services such as sewers. One significant exception is Washington County, where sewer trunk lines have been extended through most of the UGB. There are also areas within city limits without some services, and with agricultural or rural residential zoning. Taking these factors into account, the following table estimates the percentage of tax-deferred property with access to urban services. As the table shows, circumstances vary widely from one area to another.

Table 2
Estimated Percentage of Deferred Land
With Access to Urban Services

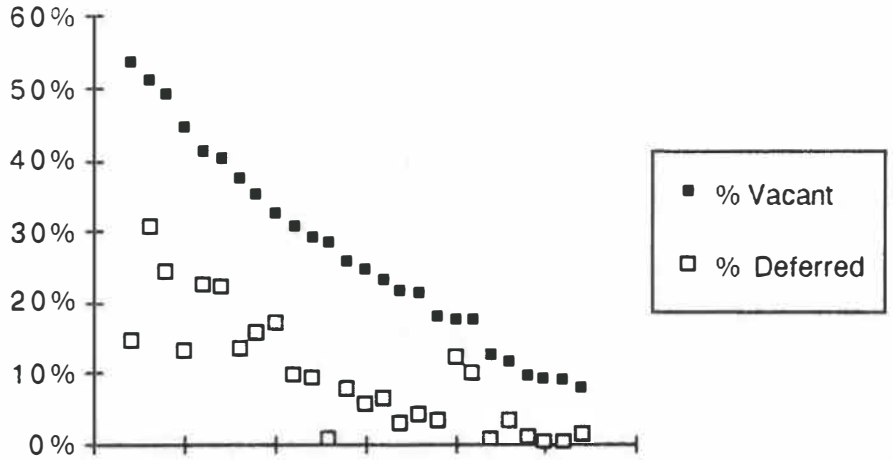
	% with Services
METRO UGB	
Multnomah	54%
Clackamas	15%
Washington	80%
Sandy UGB	4%
Bend UGB	3%
Eug/Spg.UGB	34%
Ashland UGB	33%
Medford UGB	47%

Tax-deferred property and the supply of vacant land

To assess the significance of tax-deferred property in the vacant land market, we compare it to the amount of vacant land within urban growth boundaries. Chart 4 shows both the amount of vacant land and the amount of tax-deferred land in sampled jurisdictions, as a percentage of the total land base, with each area ranked according to the percentage of vacant land. In unincorporated areas, tax-deferred property usually comprises 50 to 60 percent of the vacant land supply, while in cities, the ratio is commonly 30 to 40 percent, but occasionally nearly zero.

If demand for development sites is strong, tax-deferred acreage will be converted to urban uses; very few parcels will remain as farms forever. In Washington County UGB areas, seven percent of the tax-deferred acreage was withdrawn from deferral last year alone. Comparing all of the jurisdictions in the sample, it is clear that as the vacant land supply decreases, the amount of tax-deferred land decreases as well (Chart 4).

Chart 4
Vacant Land and Tax-Deferred Land as a Percentage
of Total Area for Sampled Jurisdictions[7]



Parcel size

Parcel size of undeveloped properties is important from a growth management perspective. Smaller parcels are more difficult to redevelop at urban densities. Reassembling them into large development sites is difficult and costly for developers. Moreover, as homes are built on small farm-deferred properties, they and neighboring parcels become committed to a low-density, rural development pattern. For these reasons, farm and forest deferral serves growth management objectives best if it keeps land in large ownerships.

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7 Jurisdictions arrayed from left to right in order of percentage of vacant land are as follows:

Fairview, Unincorporated Eugene/Springfield UGB, Bend UGB, Forest Grove, Hillsboro, Unincorporated Washington Co UGB, Troutdale, Tualatin, Unincorporated Clackamas Co. METRO UGB, Gresham, Happy Valley, Wilsonville, Medford, Tigard, Eugene, Oregon City, Beaverton, Ashland, Cornelius, Springfield, Milwaukee, West Linn, Gladstone, Lake Oswego, Portland.

To measure fragmentation, Table 3 shows the percentage of acreage in parcels ten acres or less. The percentage of small parcels ranges from only four percent in the Bend UGB to 62 percent in the Ashland UGB. Often the smaller parcels serve as homesites. Table 3 approximates the number of homesites by enumerating parcels of ten acres or less with improvements valued over $10,000. The homesite percentage, measured this way, ranges from 3 to 32 percent.

Table 3
Smaller Parcels as a Percentage
of Tax-Deferred Acreage

UGB	Property 10 acres or less	% of Total	Improved Property 10 acres or less	% of Total	Total Acres
Ashland	230	62%	118	32%	373
Clackamas METRO	959	37%			2,610
Sandy	274	35%			775
Medford	297	33%	41	5%	898
Washington Co METRO	3,152	25%	604	5%	12,704
Multnomah Co METRO	932	21%	332	7%	4,490
Eugene/Springfield	764	11%	362	5%	7,270
Bend	182	4%	121	3%	4,108

Parcel sizes exhibit no obvious pattern from one area to another. In particular, they are generally no larger in unincorporated areas than inside cities; in fact in several counties the opposite is true (Table 4).

Table 4
Median Parcel Size

Area	Median Parcel	Area	Median Parcel
Forest Grove[8]	0.2	Uninc Clack.	6.1
Cornelius	0.3	Gresham	6.2
Milwaukie	2.0	Medford UGB	6.2
N Plains	2.0	Sandy Uninc.	6.5
Sandy	3.0	Beaverton	7.4
Portland	3.7	Medford Uninc.	7.4
West Linn	4.5	Hillsboro	7.4
Ashland Uninc.	4.7	Sherwood	8.7
Mult. Uninc.	4.8	Troutdale	8.8
Ashland UGB	5.0	Tigard	9.5
Lake Oswego	5.0	Gladstone	10.3
Mult. METRO	5.0	Tualatin	10.3
Oregon City	5.0	Bend Uninc.	10.7
Wash. Uninc.	5.3	Bend UGB.	11.0
Happy Valley	5.5	Fairview	11.7
Medford	5.5	Eugene/Spg Uninc.	12.0
Wash. METRO	5.5	Eugene/Spg UGB	12.8
Ashland	5.8	Eugene	13.5
Clack. METRO	5.8	Springfield	13.5
Sandy UGB	6.0	Bend	19.3
		Wilsonville	19.7

Estimated tax shift

The magnitude of the tax burden shifted to other property owners by special assessment of farm and forestland depends on several factors: the amount of land in deferral, its market value, its farm-use value, taxes levied, and the total base of assessed value in the area. Since assessors generally do not estimate market values for land in farm or forest deferral, a precise figure is not available for this key variable. Therefore average market values were estimated for farm and forest properties in UGBs as a whole, based on conversations with assessors and appraisers, and on the market value on the tax rolls for the homesite portions of tax-deferred properties.

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8 These very low medians for Forest Grove and Cornelius probably reflect one or more platted subdivisions which were never developed, and are now farmed. A single farm unit in these cases would include many parcels.

Table 5 summarizes the resulting estimates, which range up to 3.4 percent in Washington County. These percentages can be interpreted as the percent reduction in overall tax rates which would occur if all tax-deferred land inside the UGB was taxed at full market value.

Table 5
Estimated Impact of Tax-Deferred Property on
Tax Rates in Selected UGBs, 1990

UGB	Assumed Farm[9] Mkt.Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate[10] Impact
METRO							
Multnomah	$20,000	4,490	$89.8	$8.4	$32	$18.4	0.4%
Clackamas	$15,000	2,610	$39.2	$1.0	$25	$6.6	0.6%
Washington	$25,000	12,704	$317.6	$5.6	$26	$9.0	3.4%
Total	$22,548	19,804	$446.6	$15.0		$34.0	
Bend UGB	$10,000	4,108	$41.1	$1.1	$22	$1.9	2.1%
Eugene/Spg UGB	$13,000	7,270	$94.5	$1.5	$27	$4.7	1.9%
City of Medford[11]	$30,000	425	$12.7	$0.1	$24	$1.6	0.8%
City of Ashland	$19,000	123	$2.3	$0.3	$18	$0.7	0.3%

On the next page a summary table shows the key statistics from the six county inventory.

9 References to farmland here also include forestland.

10 'Rate impact' is the percentage reduction in overall tax rates which would occur if all farm and forest properties inside the UGB were taxed at market value. It does not include the effect of rollback revenues. The mechanics for calculating the tax shift are described in: Dunford, R.W. and D.C. Marousek. 1981. "Sub-County Property Tax Shifts Attributable to Use-Value Assessments on Farmland." *Land Economics* 57 (May): 221-29.

11 Medford and Ashland estimates are for the cities only, excluding the unincorporated areas within the UGBs.

Table 6
Summary of Tax Deferral Statistics

Area	Total Area	Vacant Land	Percent Vacant	Tax Deferred	% of Total	% of Vacant	Parcels	Median Parcel Size	Mean Parcel Size
Ashland	3,752	674	18%	123	3%	18%	19	5.8	6.5
Ashland UGB		1,142		373		33%	59	5.0	6.3
Ashland Uninc.		468		250		53%	40	4.7	6.3
Beaverton	8,768	1,877	21%	360	4%	19%	32	7.4	11.3
Bend				134			6	19.3	22.3
Bend UGB.	17,400	8,579	49%	4,108	24%	48%	92	11.0	46.1
Bend Uninc.				3,974			86	10.7	47.8
Clack. METRO				2,610			290	5.8	9.0
Uninc Clack.	12,800	4,197	33%	2,219	17%	53%	234	6.1	9.5
Cornelius	1,140	201	18%	142	12%	71%	74	0.3	1.9
Eugene	24,483	5,746	23%	1,609	7%	28%	83	13.5	19.4
Eugene/Spg UGB	48,630	15,239	31%	7,270	15%	48%	294	12.8	24.7
Eugene/Spg Uninc.	15,616	7,993	51%	4,804	31%	60%	190	12.0	25.3
Fairview	1,996	1,072	54%	293	15%	27%	18	11.7	16.3
Forest Grove	2,762	1,232	45%	366	13%	30%	78	0.2	4.7
Gladstone	2,253	210	9%	10	0%	5%	1	10.3	10.3
Gresham	14,344	4,414	31%	1,403	10%	32%	122	6.2	11.5
Happy Valley	1,440	421	29%	138	10%	33%	16	5.5	8.6
Hillsboro	11,686	4,830	41%	2,628	22%	54%	162	7.4	16.2
Lake Oswego	6,009	555	9%	24	0%	4%	4	5.0	6.1
Medford	5,248	1,367	26%	425	8%	31%	54	5.5	7.9
Medford UGB		2,001		898		45%	91	6.2	5.2
Medford Uninc.		634		473		75%	37	7.4	1.3
Milwaukie	3,002	381	13%	19	1%	5%	5	2.0	3.9
Mult. METRO				4,490			376	5.0	11.9
Mult. Uninc.				873			45	4.8	19.4
N Plains				60			20	2.0	3.0
Oregon City	3,159	688	22%	102	3%	15%	15	5.0	6.8
Portland	85,811	6,724	8%	1,394	2%	21%	152	3.7	9.2
Sandy	1,400			32	2%		7	3.0	4.6
Sandy UGB	2,700			775	29%		79	6.0	9.8
Sandy Uninc.	1,300			743	57%		72	6.5	10.3
Sherwood	1,907			600	31%		52	8.7	11.5
Springfield	8,530	1,499	18%	857	10%	57%	21	13.5	40.8
Tigard	6,592	1,646	25%	381	6%	23%	47	9.5	8.1
Troutdale	3,840	1,451	38%	528	14%	36%	39	8.8	13.5
Tualatin	4,429	1,570	35%	700	16%	45%	43	10.3	16.3
Wash. METRO				12,704			1186	5.5	10.7
Wash. Uninc.	33,372	13,448	40%	7,391	22%	55%	674	5.3	11.0
West Linn	4,800	468	10%	59	1%	13%	11	4.5	5.4
Wilsonville	4,160	1,186	29%	39	1%	3%	2	19.7	19.7

1. Multnomah County

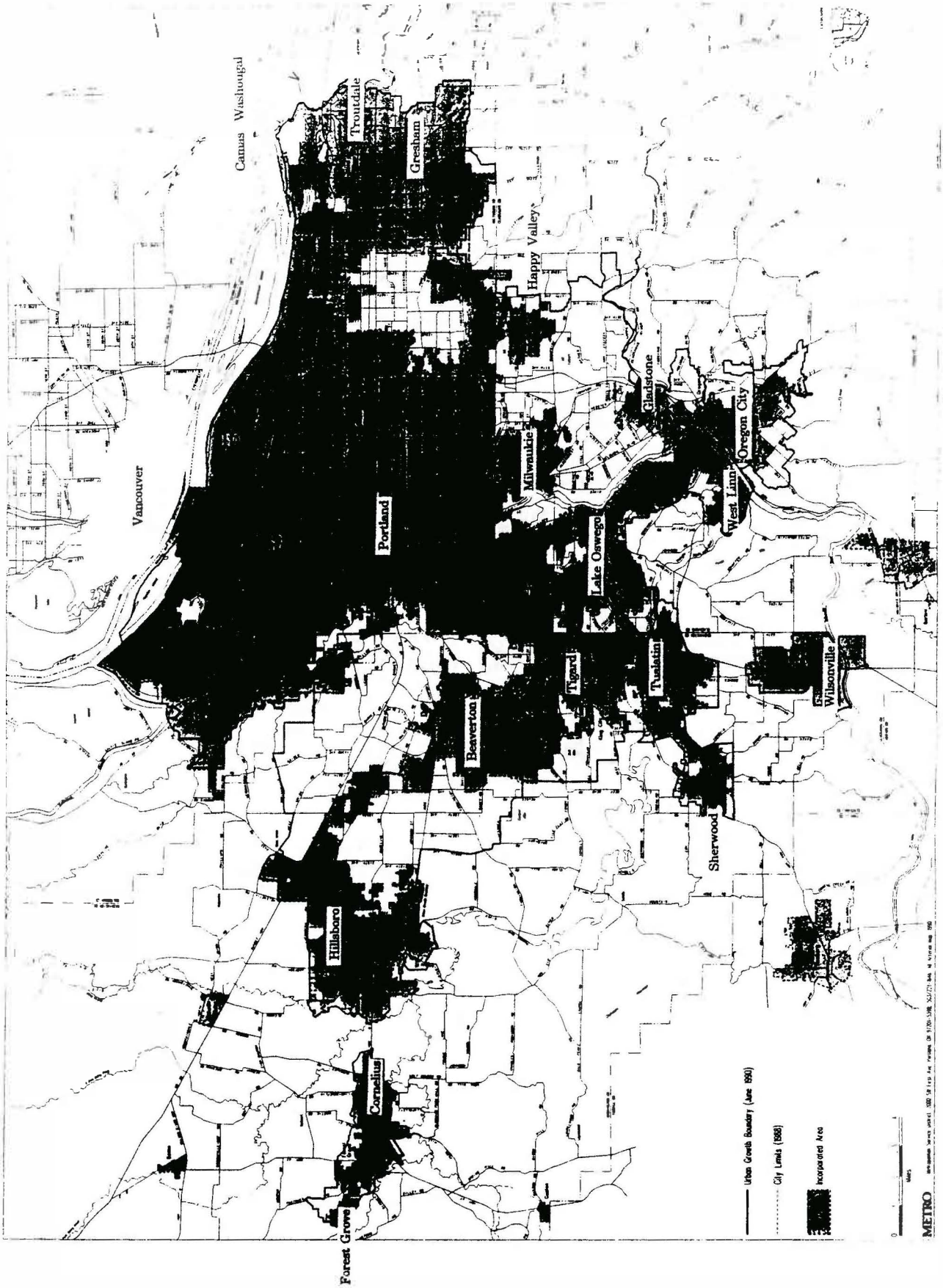
Although it is the most urban county in Oregon, the Multnomah County portion of the METRO UGB contains a significant amount of land assessed as farm or forestland: 376 properties containing 4,490 acres. About three-quarters of the acreage is located in the eastern part of the county, and one quarter along the western boundary of the UGB near Forest Park. Eighty percent is inside city limits, the highest percentage of the six counties studied.

The bulk of the tax-deferred land is under the farm deferral program rather than forest assessment. Eighty-five percent of the acreage is under farm deferral, 14 percent under forest deferral (WOFLAST[12]), and one percent under WOSTOT[13], a special program for small forestland ownerships in western Oregon.

Table 7
Farm and Forest Property by Tax-Deferral Category[14]
Inside the METRO UGB, Multnomah County 1990

Tax Category	Acres	Percent
Farm not in EFU Zone	3,828	85%
Forest, Small Tract Option	47	1%
Other Forest	615	14%
Total	4,490	100%

12 Western Oregon Forest Land and Severance Tax.
13 Western Oregon Small Tract Option.
14 Farm not in EFU Zone: Ratio Codes 544, 573, 574, 594
Forest, Small Tract Option: Ratio Codes 648, 677
Other Forest: Ratio Codes 642, 671, 672, 644, 673
(Other Forest includes 7 acres of mixed farm/forest.)

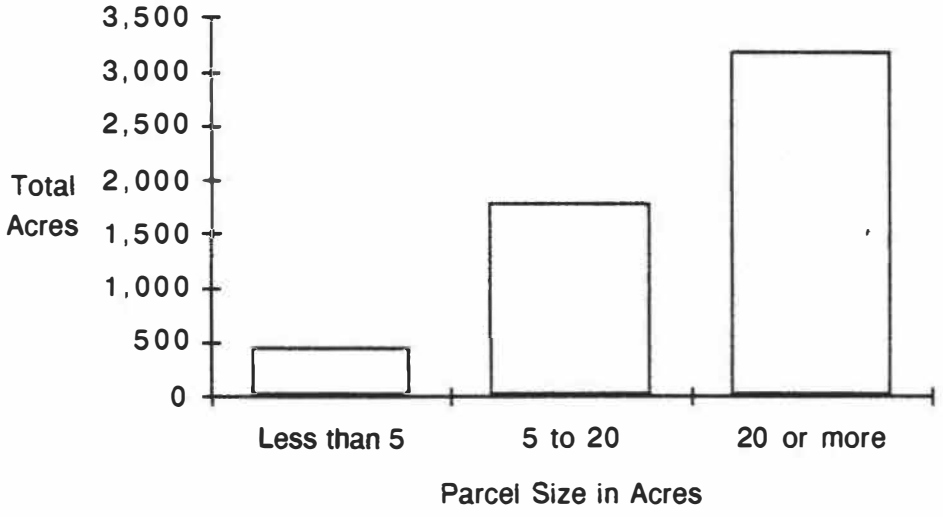

Camas
Washougal
Troutdale
Gresham
Happy Valley
Vancouver
Portland
Milwaukie
Gladstone
Oregon City
West Linn
Lake Oswego
Tigard
Tualatin
Wilsonville
Beaverton
Sherwood
Hillsboro
Cornelius
Forest Grove
Urban Growth Boundary (June 1990)
City Limits (1988)
Incorporated Area
METRO

Many parcels contain sections that are assessed at full value. These are usually one acre or half-acre sites containing houses or mobile homes. The average assessed value of these sites is $27,418 per acre. In total, 33 percent of the acreage contains single-family homes[15]. Since most of these properties are large, presumably many could be redeveloped at higher densities in the future.

Parcel Size

Average parcel size is 12.2 acres, but most of the acreage is in ownerships of over 20 acres. Median parcel size is 5.0 acres, meaning half the parcels are 5.0 acres or smaller.

Chart 5
Distribution by Parcel Size
Tax-Deferred Land, METRO UGB,
Multnomah County Portion



15 125 parcels contain single family homes, comprising 1,468 acres, as indicated by a ratio code (property class) with '4' as the second digit.

One common concern about Oregon's farm and forest deferral laws is that. because income tests and minimum parcel sizes are modest or absent, tax deferral may be available to properties which are more rural-style homesites than bona fide farms. Such properties may never be available for redevelopment at urban densities. Moreover, tax deferral could accelerate the partitioning of bona fide farms into homesites, if it is granted too freely.

For each county, we approximate the extent of homesites by enumerating parcels of ten acres or less with improvements valued at more than $10,000. The ten acre cutoff assumes that larger parcels are more likely to be redeveloped, even if they contain a residence. Mobile homes are generally excluded from the calculation.[16] In Multnomah County, homesite parcels defined this way account for 7 percent of the deferred land area.[17]

Zoning and urban services

Forty-two percent of the acreage is zoned residential, 39 percent as farm or forest, and 19 percent industrial or commercial. Of the acreage zoned residential, 29 percent is zoned for 10 to 20 acre minimum lot sizes or has a "future urban" designation, indicating an absence of urban services. Assuming the area zoned as farm or forest also lacks services, then only about half of the tax-deferred acreage is presently developable at urban densities.

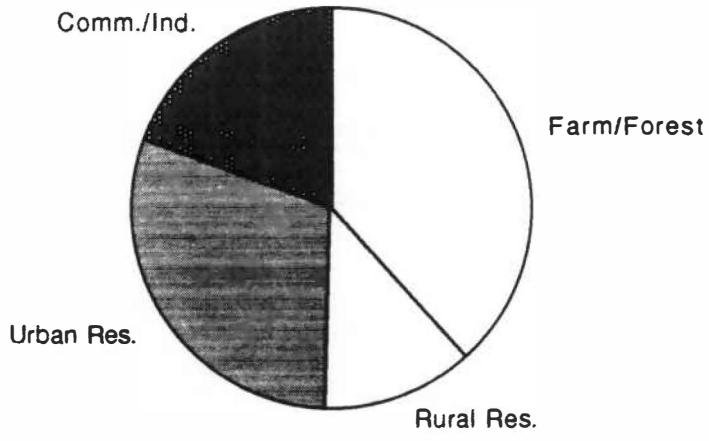
16 Because they are usually assessed as separate accounts, mobile home values are not listed with a parcel's land value. Since mobile homes are movable, they do not represent as permanent of a development as traditional homes, so excluding them may be appropriate.

17 332 acres out of 4,490.

Table 8
Farm Tax-Deferred Property by Zoning Category
Inside the METRO UGB, Multnomah County, 1990[18]

City	Residential	Comm. or Industrial	Farm, Other	Total Acres	Percent
Portland	375	298	721	1,394	31%
Gresham	791	381	230	1,403	31%
Troutdale	337	95	96	528	12%
Fairview	125	51	117	293	7%
Unincorporated	262	43	568	873	19%
Total Acres by Zoning Category	1,890	868	1,732	4,490	100%
Percentage	42%	19%	39%	100%	

Chart 6
Farm Tax-Deferred Property by Zoning Category
Inside the METRO UGB, Multnomah County, 1990[19]



18 Zoning designations are as noted in assessment records, supplemented by some manual checking. Assignments to categories were done as follows:

Zone	Category
GI, GM, I, LM, LI	Industrial
F2, MUA, MUF	Farm/Other
LDR, LR, MDR, RR,UF	Residential

Source: Multnomah County Assessment and Taxation printout

19 The following zones are grouped as rural residential: LR20, LR40, R20, RR, UF10, UF20. Note: these zones are as noted in assessment records, and are sometimes outdated.

Tax-deferred property and the supply of vacant land

How significant is the amount of land with tax-deferred status compared to the supply of developable land in Multnomah County jurisdictions? An approximate answer can be given by comparing tax-deferred acreage with vacant land estimates. In the following table, tax-deferred land zoned either residential or farm/forest is combined and compared to residentially-designated vacant land, and tax-deferred land zoned commercial or industrial is compared with commercial/industrial vacant land. The resulting percentages may overstate the importance of tax-deferred properties in the vacant land supply. First, some farm and forestland is not developable because of slopes, floodplain or wetland conditions. Second, some tax-deferred properties have improvements, so may not be classified as vacant lands. Recognizing these limitations, the table still provides an indication of the relative amount of tax-deferred lands.

In cities within the UGB, the estimated portion of vacant land that is tax-deferred ranges from 21 percent for Portland to 35 percent for Troutdale.

Table 9
Tax-Deferred Property Compared to
the Supply of Vacant Land
Multnomah County Cities[20]

City	Residential	Commercial/ Industrial	Total
Portland			
Tax-deferred acres	1,096	298	1,394
Vacant land supply	4,114	2,610	6,724
Percentage	27%	11%	21%
Gresham			
Tax-deferred acres	1,021	381	1,403
Vacant land supply	2,514	1,900	4,414
Percentage	41%	20%	32%
Fairview			
Tax-deferred acres	242	51	293
Vacant land supply	494	568	1,072
Percentage	49%	9%	27%
Troutdale			
Tax-deferred acres	433	95	528
Vacant land supply	575	876	1,451
Percentage	75%	11%	36%
Unincorporated areas inside UGB			
Tax-deferred acres	830	43	873
Vacant land supply	NA	NA	NA
Percentage	NA	NA	NA

Estimated tax shift

The magnitude of the taxes shifted from owners of qualifying properties to other taxpayers depends on the amount of land assessed at farm-use value, its market value, its farm-use value, taxes levied, and the total base of assessed value in the area. An approximate indication of the subsidy can be derived by applying an average tax rate to the difference between market value and assessed value for the specially-assessed properties. Since assessors generally do not estimate market values for land in farm or forest deferral, a precise figure is not available. These estimates assume an average market value per acre of $20,000, based on conversations with assessors and appraisers, and on the market value estimates for the homesite portions of tax-deferred properties.

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20 Source for buildable land acreage: METRO Planning and Development Department, *Community Profiles*, June 1990. Land currently zoned for farm or forest use is assumed ultimately residential in the table.

At $20,000 per acre, total market value of the farm/forest acreage is $89.8 million, compared to assessed value of $8.4 million. Applying the tax rate to the difference between market value gives an annual tax shift of $2.6 million per year. In other words, in the absence of tax deferral, participating owners would pay an additional $2.6 million in property taxes. Because of the large base of assessed value in the area ($18.4 billion), the impact on overall tax rates is small: 0.4 percent.

Table 10
Estimated Tax Shift
Due to Tax-Deferred Property
Multnomah County UGB Area

Assumed Farm[21] Mkt.Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate[22] Impact
$20,000	4,490	$89.8	$8.4	$32	$18.4	0.4%

21 References to farmland here also include forestland.

22 'Rate impact' is the percentage reduction in overall tax rates which would occur if all farm and forest properties inside the UGB were taxed at market value. It does not include the effect of rollback revenues. The mechanics for calculating the tax shift are described in: Dunford, R.W. and D.C. Marousek. 1981. "Sub-County Property Tax Shifts Attributable to Use-Value Assessments on Farmland." *Land Economics* 57 (May):p 221-29.

2. Washington County

Urban growth boundaries in Washington County contain 1,186 properties assessed as farm or forestland, a total of 12,704 acres. Fifty-eight percent of the acreage is outside city limits.

The bulk of the tax-deferred land is under the farm deferral program rather than forest assessment. Eighty-eight percent of the acreage is under farm deferral, 12 percent under forest deferral.

Table 11
Farm and Forest Property by Tax-Deferral Category[23]
Inside UGBs, Washington County, 1990

Tax Category	Acres	Percent
Farm, not zoned EFU	10,100	80%
Predominantly Forest	833	7%
Farm, zoned EFU	949	7%
Forest, no improvements	605	5%
Farm limited by ownership rights	217	2%
Total	12,704	100%

Parcel size

Median parcel size is 5.5 acres. Parcels of ten acres or less account for 25 percent of the tax-deferred acreage. Homesite parcels, defined as parcels ten acres or less with improvements valued at over $10,000, account for 5 percent of the acreage.

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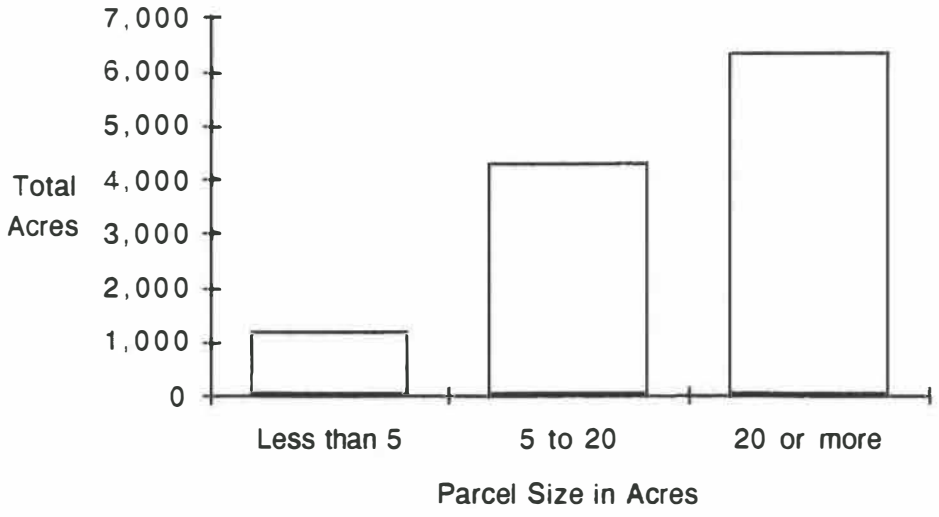
23 Farm not in EFU Zone: Property Class 503
Predominantly Forest: Property Class 601
Forest, no improvements: Property Class 600
Farm, zoned EFU: Property Class 502
Farm limited by ownership rights: Property Class 501 (e.g. BPA easements)

Chart 7
Distribution by Parcel Size
Farm and Forest Properties
Inside Washington County UGBs



Zoning and urban services

The data source used lists the comprehensive plan designation for about half the acreage under study, so only a partial view of plan categories can be provided. Of the acreage for which zoning information is available, 88 percent is zoned residential, and the balance commercial, industrial or institutional.

Table 12
Farm Tax-Deferred Acreage by Plan Designation and City,
Washington County, 1990

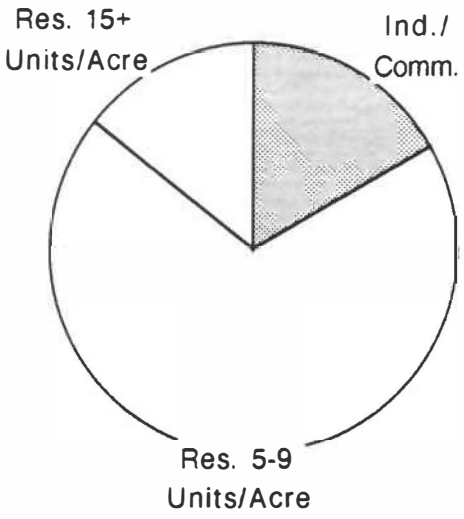
City	Residential	Comm. or Industrial	Not Avail.	Total Acres
Banks			75	75
Beaverton	178		182	360
Cornelius			142	142
Forest Grove		22	344	366
Hillsboro	94	296	2,238	2,628
North Plains			60	60
Sherwood	20	35	545	600
Tigard	55		326	381
Tualatin	9		653	662
Wilsonville			39	39
Unincorporated inside UGBs	4,605	652	2,134	7,391
Total Acres by Plan Designation	4,961	1,005	6,738	12,704
Percentage	39%	8%	53%	100%

Source: Washington County Planning Department data file[24]

24 Assignments to categories were done as follows:

Zone	Category
CBD, GC, IND,INST,NC,OC,SID	Commercial/Industrial
FD10, R15,R24,R25+,R5,R6, R9	Residential

Chart 8
Tax-Deferred Property by Plan Designation
Inside UGBs, Washington County[25]



To estimate the extent to which tax-deferred properties have access to urban services, we determined which parcels pay taxes to the Unified Sewerage Agency (USA). USA provides sewerage services in much of the UGB area. Although a property in a USA tax district may not have immediate access to sewers, it probably has reasonable access to a USA trunk line. Using this proxy, 80 percent of the tax-deferred acreage has access to urban services.

Tax-deferred property and the supply of vacant land

Property in farm deferral equals 65 percent of the vacant land supply in the unincorporated part of the UGB area, and 23 to 54 percent inside city limits.

25 This excludes acreage for which plan designation was unavailable.

Table 13
Tax-Deferred Property Compared to Supply of Vacant Land
Washington County Cities[26]

City	Acres
Beaverton	
Tax-deferred acres	360
Vacant land supply	1,877
Percentage	19%
Forest Grove	
Tax-deferred acres	366
Vacant land supply	1,232
Percentage	30%
Hillsboro	
Tax-deferred acres	1,576
Vacant land supply	4,830
Percentage	33%
Tigard	
Tax-deferred acres	381
Vacant land supply	1,646
Percentage	23%
Tualatin[27]	
Tax-deferred acres	700
Vacant land supply	1,570
Percentage	45%
Unincorporated Areas Inside UGB	
Tax-deferred acres	8,733
Vacant land supply	13,448
Percentage	65%

26 Source for buildable land acreage: METRO Planning and Development Department, *Community Profiles*, June 1990. Since some farm and forestland is not developable because of slopes, floodplain or wetland conditions, these percentages may overstate somewhat the percentage of vacant buildable land which is in farm deferral.

27 Tax-deferred acres listed for Tualatin here includes land in both Clackamas and Washington Counties.

Estimated tax shift

The Washington County Department of Assessment and Taxation provided a rough estimate of market value per acre by plan designation. Table 14 shows estimated market values for each plan designation. This was used to estimate the tax shift effect. Untaxed property value for tax-deferred parcels is estimated at $311 million. The resulting tax shift is about $8 million per year, or around $0.88 per thousand out of an average tax rate of $26 per thousand. In the absence of farm deferral, overall tax rates inside UGBs would be 3.4 percent lower. This is the largest tax shift found in the counties surveyed. It reflects both large quantities of tax-deferred land, and the high development potential for farmland in the area, which increases its value.

The tax shift is partly offset by rollback revenues that are paid when land is converted from farm use to another use. For the 1990-91 tax roll, 947 acres of tax-deferred land were withdrawn from deferral by owners, inside UGBs, yielding about $2.8 million in rollback revenue[28]. Dividing the rollback revenue into an estimated within-UGB levy of $285 million gives an impact of 1.0 percent. Therefore the rollback revenues reduce the net tax shift to 2.4 percent compared to the gross tax shift of 3.4 percent.

28 Source: Washington County Department of Assessment and Taxation. The 947 acres withdrawn translate into a 7 percent reduction in the tax deferral acreage in one year (947 / (12,704+947).

Table 14
Estimated Market Value of Farm-Deferred Property
Washington County UGB Areas

Plan Designation	Acres	Assumed Market Val per Acre	Market Value
CBD	119	$100,000	$11,930,000
FD10	393	$5,000	$1,966,000
FG	12	$5,000	$62,000
GC	7	$100,000	$740,000
IND	760	$40,000	$30,392,000
INST	51	$40,000	$2,020,000
NC	3	$100,000	$340,000
OC	23	$135,000	$3,091,500
R15	457	$45,000	$20,583,000
R24	197	$72,000	$14,162,400
R25+	119	$70,000	$8,337,000
R5	253	$20,000	$5,060,600
R6	2,590	$15,000	$38,842,500
R9	960	$11,000	$10,564,400
SID	21	$24,000	$496,800
Subtotal	5,966	$24,907	$148,588,200
Not Available[29]	6,738	$24,907	$167,828,080
TOTAL	12,704	$24,907	$316,416,280
(less) Farm-use value[30]		$440	$5,589,729
= Gap between assessed, market value			$310,826,550

29 Parcels without plan designations listed in the assessment record are assumed to have the same average market value per acre as those for which the plan designation is listed.

30 Median assessed land value per acre for these properties is $440.

Table 15
Estimated Tax Shift due to Tax-Deferred Properties
Washington County UGB Areas, 1990

Assumed Farm[31] Mkt Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate[32] Impact
$25,000	12,704	$317.6	$5.6	$26	$9.0	3.4%

31 References to farmland here also include forestland.

32 'Rate impact' is the percentage reduction in overall tax rates which would occur if all farm and forest properties inside the UGB were taxed at market value. It does not include the effect of rollback revenues. The mechanics for calculating the tax shift are described in: Dunford, R.W. and D.C. Marousek. 1981. "Sub-County Property Tax Shifts Attributable to Use-Value Assessments on Farmland." *Land Economics* 57 (May):p 221-29.

3. Clackamas County

Urban growth boundaries in Clackamas County contain 369 properties assessed as farm or forestland, a total of 3,385 acres. Eighty-seven percent of the acreage is outside city limits.

The split between farm and forest assessment is 71 percent farm, including some EFU land, and 29 percent forest.

Table 16
Farm and Forest Property by Tax-Deferral Category[33]
Inside UGBs, Clackamas County, 1990

Tax Category	Acres	Percent
Farm, not zoned EFU	2,097	62%
Farm, zoned EFU	305	9%
Forest, no improvements	364	11%
Forest, with improvements	619	18%
Total	3,385	100%

Parcel size

Median parcel size is 5.8 acres in the Clackamas portion of the METRO UGB, and 6.0 acres in the Sandy UGB area. The Sandy area has a greater portion of tax-deferred parcels in large ownerships, compared to the METRO UGB, probably reflecting its more rural nature.

The prevalence of parcels ten acres or less in size is 37 percent for the METRO portion, and 35 percent for the Sandy portion, which is higher than in most other UGBs.

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33 Farm not in EFU Zone: Property Class 503
Predominantly Forest: Property Class 601
Forest, no improvements: Property Class 600
Farm, zoned EFU: Property Class 502
Farm limited by ownership rights: Property Class 501 (e.g. BPA easements)

Zoning and urban services

Zoning information for tax-deferred parcels was not readily available, but a listing by city was prepared, as shown in the following table.

Table 17
Farm Tax-Deferred Acreage by City and UGB,
Clackamas County, 1990

City	Total Acres
METRO UGB	
Gladstone	10
Happy Valley	138
Lake Oswego	24
Milwaukie	19
Oregon City	102
Tualatin	39
West Linn	59
Unincorporated	2,218
METRO Total	2,610
Sandy UGB	
Sandy	32
Unincorporated	743
Sandy UGB Total	775

Source: Clackamas County Department of Assessment and Taxation[34]

34 Assignments to categories were done as follows:

Zone	Category
CBD, GC, IND,INST,NC,OC,SID	Commercial/Industrial
FD10, R15,R24,R25+,R5,R6, R9	Residential

Tax-deferred property and the supply of vacant land

In most Clackamas cities, the amount of farm and forest-deferred property is fairly insignificant. Only in Happy Valley is the ratio of tax-deferred land to total vacant land over 15 percent.

Table 18
Tax-Deferred Property Compared to Supply of Vacant Land
Clackamas County Cities[35]

City	Acres	City	Acres
Gladstone		Oregon City	
Tax-deferred acres	10	Tax-deferred acres	102
Vacant land supply	210	Vacant land supply	688
Percentage	5%	Percentage	15%
Happy Valley		West Linn	
Tax-deferred acres	138	Tax-deferred acres	59
Vacant land supply	421	Vacant land supply	468
Percentage	33%	Percentage	13%
Lake Oswego		Unincorporated METRO UGB	
Tax-deferred acres	24	Tax-deferred acres	2,219
Vacant land supply	555	Vacant land supply	4,197
Percentage	4%	Percentage	53%
Milwaukie			
Tax-deferred acres	19		
Vacant land supply	381		
Percentage	5%		

35 Source for buildable land acreage: METRO Planning and Development Department, *Community Profiles*, June 1990. Since some farm and forestland is not developable because of slopes, floodplain or wetland conditions, these percentages may overstate somewhat the percentage of vacant buildable land which is in farm deferral.

Estimated tax shift

With assistance from a real estate appraiser, an average market value of $15,000 was estimated for tax-deferred parcels in the Clackamas portion of the METRO UGB. This was used to estimate the tax shift effect. The market value of farm properties is relatively small compared to the total assessed value of the area, giving an estimated tax shift of 0.6 percent. This translates into about $1 million per year in forgone tax revenue.[36] No estimate was done for the Sandy UGB.

Table 19
Estimated Impact of Tax-Deferred Property on Tax Rates
Clackamas Portion, METRO UGB, 1990

Assumed Farm Mkt.Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate Impact
$15,000	2,610	$39.2	$1.0	$25	$6.6	0.6%

36 The Clackamas County assessor has estimated a tax shift of $1.2 million in Clackamas County UGBs for farm and forest property, including the Sandy UGB. Total UGB acreage of tax-deferred property was estimated by the assessor at 3,100 acres, compared to 3,385 acres estimated in this study. Our results are similar to the assessor's estimates. Source: Al Uney, Senior Appraiser, Clackamas County.

4. Deschutes County

The Bend urban growth boundary includes 4,108 acres of land specially-assessed as farm or forest land in 92 parcels. Virtually all of the tax-deferred property is outside the Bend city limits.

The tax-deferred land is nearly evenly divided between forest and farm assessment. Fifty-two percent of the acreage is under farm deferral, and 48 percent under forest deferral.

Table 20
Farm and Forest Property by Tax-Deferral Category[37]
Inside the Bend UGB, Deschutes County

Tax Category	Acres	Percent
Farm in EFU Zone	30	1%
Farm not in EFU Zone	2,087	51%
Forest land	1,991	48%
Total	4,108	100%

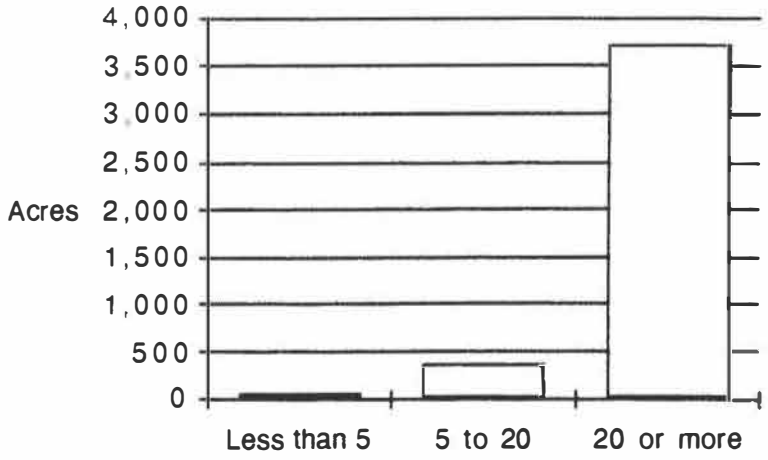
Average assessed land value for all the properties is $257 per acre. This average includes portions of properties, usually homesites, which are not specially-assessed; average deferred value would be lower. Median assessed land value per acre is $238.

Parcel size

Median parcel size is 11.0 acres, and 90 percent of the acreage is in ownerships of over 20 acres. This contrasts with Portland-area farm properties, which are more fragmented. Over a third of the farm and forest acreage in the Bend UGB is in a single large parcel, and only four percent of the acreage is in ownerships of ten acres or less.

37 Farm in EFU Zone: Property Class 550
Farm not in EFU Zone: Property Class 540, 541
Forest Property Class 648, 660

Chart 9
Distribution by Parcel Size
Tax-Deferred Properties Inside the Bend UGB



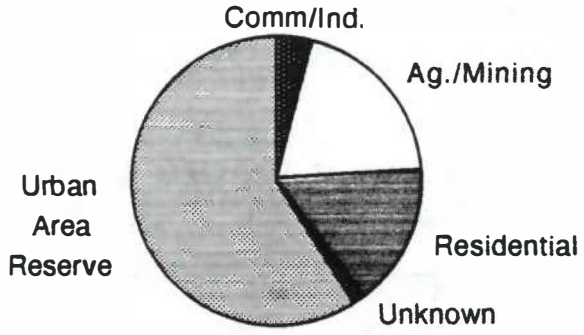
Zoning and urban services

Only 16 percent of the tax-deferred acreage is zoned residential. Over half is designated as "Urban Area Reserve", indicating it is reserved for future development. Another 20 percent is zoned for agriculture or mining. Including commercial and industrial land, only about 20 percent of the farm and forest property appears to be zoned for development currently. County assessors confirm that most of the acreage does not have access to urban services such as sewer and water systems.

Table 21
Tax-Deferred Property by Zoning Category
Inside the Bend UGB, Deschutes County, 1990[38]

Area	Residential	Comm. or Industrial	Farm, Mining	Urban Reserve	Not Avail.	Total Acres	Percent
City of Bend	33			95	6	134	3%
Unincorporated	617	172	814	2,314	57	3,974	97%
Total Acres by Zoning Category	650	172	814	2,409	62	4,108	100%
Percentage	16%	4%	20%	59%	1%	100%	

Chart 10
Farm Tax-Deferred Property by Zoning Category
Inside the Bend UGB, Deschutes County



38 Zoning designations are as noted in assessment records. Assignments to categories were done as follows:

Zone	Category
CH, IL	Commercial/Industrial
EFU, FU, MUA, SM	Agriculture/Mining
RL, RM, RR1, RS, SR	Residential
UAR	Urban Area Reserve
U	Not Available

Table 22
Tax-Deferred Property Compared to
the Supply of Vacant Land
Bend UGB[39]

Area	Residential	Comm /Industrial	Total
Bend UGB			
Tax-deferred acres	3,059	172	4,108
Vacant land supply	7,718	861	8,579
Percentage	40%	20%	48%

Estimated tax shift

Assuming that deferred land has an average market value of $10,000 per acre in the area, then its total market value is $41 million, compared to about $1.9 billion in assessed value within the Bend UGB. Full assessment of deferred properties would decrease overall tax rates by 2.1 percent.

Table 23
Estimated Impact of Tax-Deferred Property on
Tax Rates, Bend UGB, 1990

Assumed Farm[40] Mkt.Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate Impact
$10,000	4,108	$41.1	$1.1	$22	$1.9	2.1%

39 Land zoned Urban Area Reserve is assumed residential, and land zoned for surface mining (SM) or farming is excluded. Acres for which zoning is unknown are assumed residential. Source for vacant land figures: Planning Department, City of Bend.

40 References to farmland here also include forestland.

5. Jackson County

Information was collected for two UGBs in Jackson County: Medford and Ashland.

The two surveyed urban growth boundaries in Jackson County contain 150 properties assessed as farm or forestland, a total of 1,271 acres[41]. Fifty-five percent of the acreage is outside city limits.

Nearly all of the tax-deferred land (98 percent) is under the farm deferral program rather than forest assessment.

Table 24
Farm and Forest Property by Tax-Deferral Category[42]
Inside the Medford and Ashland UGBs
Jackson County

	Acres	Parcels	Avg. Parcel	Property Class
EFU farmland				
No improvements	49	5	9.8	510
With improvements	126	6	21.0	511
With mobile home	17	2	8.5	519
Subtotal	192	13	14.8	
Non-EFU farmland				
No improvements	367	57	6.4	520;540;580
With improvements	660	72	9.2	521;531;541;555;581
With mobile home	22	5	4.4	529;551
Subtotal	1,049	134	7.8	
Forest				
No improvements	3	1	3.0	610;620
With improvements	27	2	13.5	611;621
With mobile home				619
Subtotal	30	3	10.0	
Total				
No improvements	419	63	6.6	
With improvements	813	80	10.2	
With mobile home	39	7	5.6	
Grand Total	1,271	150	8.5	

41 All figures for Medford are based on the existing UGB rather than the larger UGB being proposed.

42 Based on property classes as shown in table. Source: Jackson County Assessor.

Parcel size

Median parcel size is 5.0 acres in the Ashland UGB, and 6.2 acres in the Medford UGB. Parcel sizes are largest in the areas zoned EFU, as shown in Table 24. Ashland has the highest percentage of acreage in parcels of ten acres or less (62 percent) of all sampled UGBs, and the highest estimated homesite percentage (32 percent), defined as the percentage of tax-deferred acreage which has improvements valued at more than $10,000 and is ten acres or less in size.

Zoning and urban services

The Medford and Ashland UGBs contain a higher proportion of tax-deferred land zoned for non-residential use than the other areas studied, including acreage zoned for exclusive farm use. Thirty-one percent is zoned commercial or industrial; 22 percent as farm or forestland. Most acreage outside corporate boundaries does not have access to urban services, although special sewer and water districts do serve about a third of the unincorporated area of the Medford UGB.

Table 25
Farm Tax-Deferred Acreage by Zoning and City[43]
Jackson County, 1990

City	Residential	Comm. or Industrial	Farm/ Forest	Total Acres
Medford UGB				
City of Medford	226	187	12	425
Unincorporated	113	205	155	473
Ashland UGB				
City of Ashland	98	7	17	123
Unincorporated	154	1	96	250
Grand Total	590	400	280	1,271
Percentage	46%	31%	22%	100%

43 Assignments to categories were done as follows:

Zone	Category
C-1,C-G,AD-MU, I-G,I-H,I-L	Commercial/Industrial
R, RR, SFR	Residential
EFU, WR, F-5, E-A	Farm/Forest

Tax-deferred property and the supply of vacant land

As found in other counties, tax-deferred land usually comprises a larger share of the vacant land inventory in unincorporated areas than inside city limits. In Ashland the ratio of tax-deferred land to vacant land is only 18 percent, while in the unincorporated part of the Medford UGB the ratio is 75 percent.

Table 26
Tax-Deferred Property Compared to Supply of Vacant Land
Jackson County Cities[44]

City	Acres
Medford	
Tax-deferred acres	425
Vacant land supply	1,367
Percentage	31%
Unincorporated Medford UGB	
Tax-deferred acres	473
Vacant land supply	634
Percentage	75%
Ashland	
Tax-deferred acres	123
Vacant land supply	674
Percentage	18%
Unincorporated Ashland UGB	
Tax-deferred acres	250
Vacant land supply	468
Percentage	53%

Estimated tax shift

A tax shift estimate was performed for the cities of Medford and Ashland. It does not include unincorporated areas, where insufficient information was available. The market value of farm properties in each city is small relative to total assessed value. This is reflected in an estimated tax shift of less than 1 percent for each city. An estimate including unincorporated areas would probably be higher, since the value of farmland would be more significant relative to total assessed value.

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44 Sources for buildable land acreage are the City of Ashland and the City of Medford. Medford figures are from: "Urban Growth Boundary Amendment, Vacant Residential Land Inventory in City and Current UGB", September 17, 1990 and "Urban Growth Boundary Amendment, Vacant Commercial Inventory in City and Current UGB", March 26, 1990. We removed a 25 percent adjustment for streets and other public facilities to arrive at gross vacant buildable land.

Estimated tax shift

A tax shift estimate was performed for the cities of Medford and Ashland. It does not include unincorporated areas, where insufficient information was available. The market value of farm properties in each city is small relative to total assessed value. This is reflected in an estimated tax shift of less than 1 percent for each city. An estimate including unincorporated areas would probably be higher, since the value of farmland would be more significant relative to total assessed value.

Table 27
Estimated Impact of Tax-Deferred Property on
Tax Rates in Medford and Ashland, 1990

City	Assumed Farm Mkt.Val. per Acre	Farm Acres	($million) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) Total Assd.Value	% Rate Impact
City of Medford	$30,000	425	$12.7	$0.1	$24	$1.6	0.8%
City of Ashland	$19,000	123	$2.3	$0.3	$18	$0.7	0.3%

6. Lane County

A 1979 study by the Bureau of Governmental Research and Service analyzed the use of farm tax deferral in the Eugene-Springfield urban area.[45] The same information collected in that study has been updated for this study, with the assistance of the Lane Council of Governments. The Council's geographic information system makes it possible to obtain data not available from other counties.

The Eugene/Springfield UGB now contains 7,270 acres of tax-deferred land, compared to 4,474 acres in 1977. The increase in tax-deferred land reflects significant expansion in the UGB. The boundaries of Eugene and Springfield also expanded during the period.

45 Bureau of Governmental Research and Service, University of Oregon, "Urban Area Farm Tax Deferrals, A Case Study", January 1979. Although published in 1979, the study used figures from 1977.

FARM USE TAX DEFERRED PARCELS

IN THE EUGENE-SPRINGFIELD URBAN SERVICE AREA

TAX LOTS GREATER THAN TEN ACRES WITH FARM TAX DERERRAL

1989

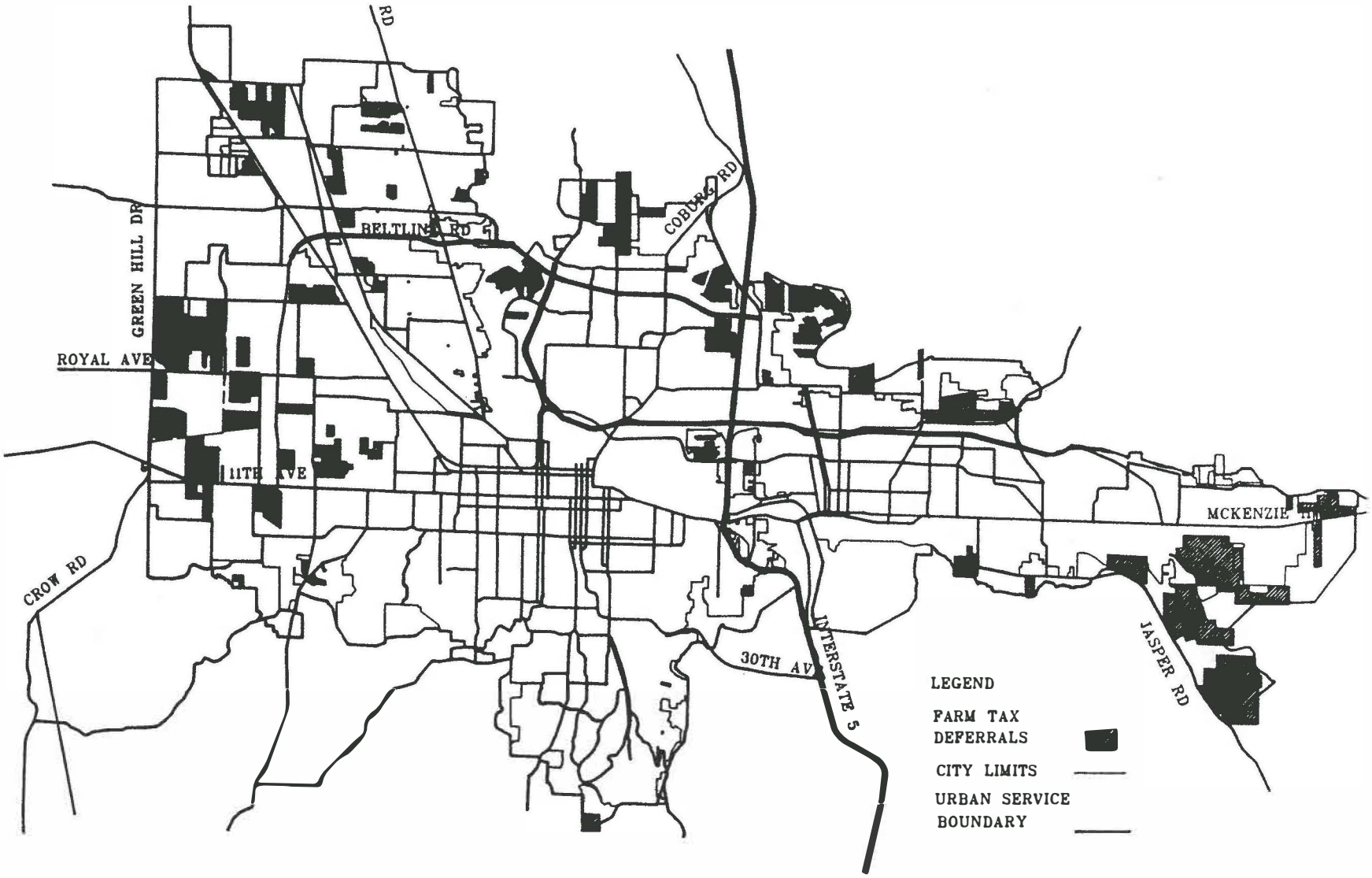


Table 28
Tax-Deferred Land In the Eugene/Springfield UGB
Acreage, Property Class and Assessed Value, 1989

	Eugene		Springfield		Unincorporated		Total UGB	
	All Property	Tax Deferred	All Property	Tax Deferred	All Property	Tax Deferred	All Property	Tax Deferred
Number of Taxable Parcels	36,570	83	13,614	21	13,137	190	63,321	294
Total Acres	24,483		8,530		15,617		48,630	
Taxable Acres	15,996	1,609	5,875	857	12,419	4,804	34,290	7,270
By Property Class								
Residential,Tract		539		119		2,689		3,347
Comm./Ind.		664		53		283		1,000
Farm		401		683		1,379		2,462
Other		6		2		454		462
Assessed Value								
Land ($million)	$787.4	$0.4	$207.6	$0.1	$157.5	$0.9	$1,152.5	$1 5
Per Acre	$49,224	$273	$35,335	$330	$12,683	$227	$30,435	$245
Improvements ($million)	$2,208.0	$31.4	$757.4	$0 6	$545.2	$8.3	$3,510.6	$40.4
Total ($million)	$2,995.4	$31.9	$965.0	$0.7	$702.7	$9.3	$4,663.1	$41.8

Parcel size, assessed value

Median parcel sizes are higher than in most other jurisdictions studied, ranging from 12 acres in the unincorporated area to 13.5 acres in Eugene. Median and mean parcel sizes are greater than those found in 1977 (ten acre median for the UGB). This apparently reflects the many large parcels which have been brought into the UGB in the intervening years.

The prevalence of homesite parcels is similar to most other UGBs. About 5 percent of the acreage is in parcels of ten acres or less with improvements of over $10,000.

Assessed land values are lower today than in 1977. Median assessed land value is $388 per acre compared to $468 per acre in 1977. These values include non-deferred portions of properties, which are assessed at full market value. The likely explanation for the decrease is that a smaller portion of the land area is non-deferred today. Excluding the non-deferred portions, median assessed land value is $283. Each deferred acre pays about $8.00 per year in property taxes.

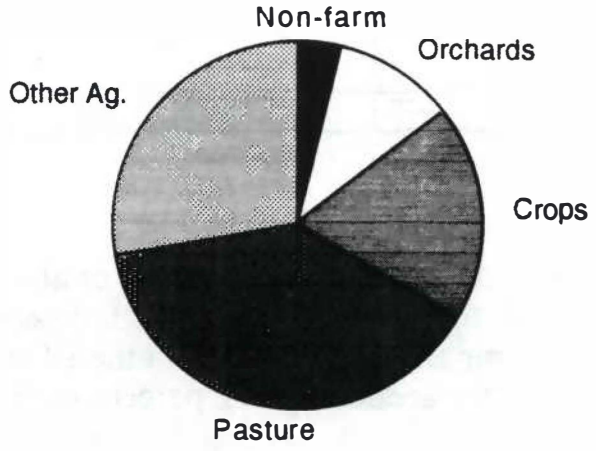
Table 29
Selected Characteristics of Tax-Deferred Parcels
Eugene-Springfield UGB, 1989

	Eugene	Springfield	Uninc.	Total
Assessed land value per acre -- Deferred parts only				
Mean	$295	$339	$299	$303
Median	$265	$380	$281	$283
Range	$25 - 528	$28 - 507	$22 - 524	$22 - 528
Assessed land value per acre -- Including non-deferred parts				
Mean	$1,345	$1,100	$666	$870
Median	$335	$428	$388	$388
Range	$25 - 55,493	$28 - 73,119	$13 - 84,667	$13 - 84,667
Parcel Size (Acres)				
Mean	19.4	40.8	25.3	24.7
Median	13.5	13.4	12.0	12.8
Range	0.1 - 143	0.2 - 195	0.1 - 406	0.1 - 406
Number of parcels	83	21	190	294
Median 1989-90 Property Taxes Paid Per Acre (Deferred Land Only)	$8.95	$12.79	$7.03	$7.92

Land use

Ninety-six percent of the tax-deferred land area is in agricultural use, according to the LCOG land use classification system.[46] If crops and orchards are considered intensive farm uses, then 30 percent of the deferred area is farmed intensively. This is a similar result to that found in the earlier study. The four percent of the acreage classified as in non-farm use reflects parcels with a mixture of farm and non-farm activity. The part of the property in non-farm use generally is subject to full taxation at market value.

Chart 11
Tax-Deferred Parcels, By Land Use Category
Inside the Eugene-Springfield UGB, 1989



46 Note that total acreages by land use disagree with total acres by property class. This is because they are drawn from different databases. The overall percentages should be reasonably accurate.

Table 30
Acres of Farm Tax-Deferred Parcels, By Land Use Category
Inside the Eugene-Springfield UGB, 1989

Land Use	Eugene		Springfield		Unincorporated		Total	
	Acres	Percent	Acres	Percent	Acres	Percent	Acres	Percent
Residential	14	1%	10	3%	120	3%	144	2%
Manufacturing, Commercial	76	5%	2	1%	23	1%	101	2%
Agricultural								
Orchards	73	5%	8	3%	549	14%	630	11%
Crops	431	27%	61	20%	625	15%	1,118	19%
Pasture	563	35%	126	41%	1,617	40%	2,305	39%
Other[47]	454	28%	96	32%	1,102	27%	1,653	28%
Total	1,610	100%	303	100%	4,037	100%	5,949	100%

Ownership patterns

Owners categorized as developers, corporations or absentee owners[48] own 41 percent of the tax-deferred acreage for which ownership information was available. This compares to 42 percent in the BGRS study. Owners who live on their property account for 12 percent of the land, and owners otherwise residing in Lane County account for the largest amount--47 percent.[49] Developers, corporations and absentee owners hold larger properties, on average, than do persons residing on their property or elsewhere in the County.

47 Includes timberland, horse raising, and land with no predominant farming activity.
48 As in the earlier BGRS study, absentee owners are defined as owners listing a mailing address outside Lane County on the tax rolls.
49 Note that owners living on their property might own several contiguous parcels, while these figures reflect only the parcel on which they reside. Therefore we understate the amount of land owned by people living on their land.

Table 31
Ownership Patterns of Tax-Deferred Parcels
Eugene-Springfield UGB

Type of Owner	Parcels	Acres	Percent	Average Parcel Size
Developer	10	328	6%	33
Corporations	47	1,309	23%	28
Absentee Owner	21	695	12%	33
Owner in Lane Co	128	2,715	47%	21
Living on Prop.	53	681	12%	13
Subtotal	259	5,728	100%	22
Not Available	36	1,542		43
Total	295	7,270		25

Zoning and urban services

In Eugene and Springfield, most tax-deferred acreage is zoned for residential use, much of it at low densities. Land outside the city limits has very limited access to urban services. An Urban Future overlay zone applies to most of the unincorporated area, indicating a reserve status until the area is annexed.

Tax-deferred property accounts for an estimated 48 percent of the vacant land supply in the UGB. As found elsewhere, the proportion is higher in unincorporated areas than in the cities. The 1979 study estimated that 30 percent of the undeveloped land area was in deferral. The higher ratio today may be explained by the expansion of the UGB, which brought heavily agricultural areas into the boundary.

Table 32
Tax-Deferred Property Compared to
the Supply of Vacant Land[50]
Eugene/Springfield UGB

Area	Residential	Commercial/ Industrial	Total
Eugene			
Tax-deferred acres	881	728	1,609
Vacant land supply	3,422	2,324	5,746
Percentage	26%	31%	28%
Springfield			
Tax-deferred acres	691	166	857
Vacant land supply	984	516	1,499
Percentage	70%	32%	57%
Unincorporated			
Tax-deferred acres	3,741	1,063	4,804
Vacant land supply	6,033	1,961	7,993
Percentage	62%	54%	60%
Total UGB			
Tax-deferred acres	5,313	1,957	7,270
Vacant land supply	10,438	4,801	15,239
Percentage	51%	41%	48%

Estimated tax shift

The 1977 study estimated that if the deferred properties were assessed at market value, they would account for 1.5 of the assessed value of real property in the urban area. We found a greater tax shift, reflecting higher market values and more tax-deferred acreage. At an estimated market value today of $13,000 per acre, today tax-deferred property would account for 2.0 percent of the area's assessed value if it was assessed at full market value. In the absence of deferral, property taxes rates would be about 2 percent lower.

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50 Source for vacant land figures: Lane Council of Governments, "Summary of Private Undeveloped Land by Plan Designation", January 1, 1989. Land designated agricultural is grouped with residential land here. Natural resource, park and open space land is excluded. Tax-deferred acreage is divided into residential and commercial categories according to zoning. Land zoned agricultural is assumed (ultimately) residential.

Table 33
Estimated Impact of Tax-Deferred Property on
Tax Rates in Selected UGBs, 1990

Assumed Farm Mkt.Val. per Acre	Farm Acres	($nullion) Est. Total Mkt. Value	($million) Assessed Farm Value	Avg. UGB Tax Rate	($billion) UGB Total Assd.Value	% Rate Impact
$13,000	7,270	$94.5	$1.5	$27	$4.7	1.9%

B. Case studies

Survey of planning directors

As part of this study, a mail survey was sent to city and county planning directors to solicit views on farm deferrals in urban areas, and to identify instances where farm tax deferral may interfere with growth management objectives. Based on the survey, several examples were used as case studies, which are presented in this section.

The survey revealed a range of views. Some did not believe changes in the deferral programs were warranted. For example:

> "The timing of development should be left to the free market system and resultant investors' decisions. Tax deferrals should continue to be based on current land use; not the zoning or plan designation."
>
> "The present farm deferral program has worked well ... as it has allowed land owners to leave their land zoned for long-term urban use in the UGB and continue the farm use until the land is needed for development."

Others believed the system should be changed:

> "...tax deferral status has played a major role in making it more difficult to develop some properties. Landowners are more willing to hold out for "big bucks" while they continue to receive farm use assessment."
>
> "Resource land benefits should not be available to lands planned for urban development."
>
> "I believe that only land zoned farm or forest should receive taxation at farm or forest use rates, whether it be inside or outside the urban growth boundary."

1. Seaside

The coastal town of Seaside is growing rapidly, and encountering a limited supply of residential land. Under these circumstances, some question whether it is appropriate to continue providing special assessments to undeveloped property with access to urban services. Planners point to one property in forest deferral, as an example that they believe is ripe for development.

The ten acre property is inside the city limits, with ocean frontage, and easy access to water and sewer services[51]. It is zoned R-2 -- medium density residential -- and has a likely market value of at least $250,000. Vacant residential land zoned for medium or high density is in short supply in the city; only 118 undeveloped acres exist. The property is split into two parcels, each about 5 acres, one of which is not developable because of steep slopes and water conditions.

The developable parcel (4.36 acres) is assessed at $930, or $213 per acre, and has no improvements. The 1990 tax bill was $19.21.[52] At a tax rate of $20.66 per thousand, taxes on an assumed market value of $250,000 would be $5,164 per year.

The owner apparently intends to develop the property. He has proposed a 75 unit condominium development to the City, which would require certain zoning changes and a density transfer.

2. Gresham: McGill Property

A large acreage of flat, undeveloped land in Gresham is in a single ownership, all of which is zoned light industrial. Over 300 acres are included in the group of parcels, which are owned by Peter McGill. The land is used to grow nursery stock. Its market value is in the $2 per square foot range, or around $87,000 per acre and $26.6 million in total. Taxes at full market value would be approximately $800,000 per year.

The McGill property is well-serviced, and almost surrounded by residential development. It has frontage on several arterials.

---

51 The property comprises tax lots 500 and 501, Section 610 29CA, Clatsop County.
52 Source: Clatsop County Assessor's office.

Farm deferral has helped to reserve the property for more intensive development, but it is also costly in terms of forgone tax revenue.

4. Bend: Highway 97 commercial tract

Less than a mile south of Bend's city limits, on Highway 97, an eleven acre farm-deferred parcel was recently sold. The property was owned and farmed by an elderly farmer. The area is commercial, and developing rapidly. Across the highway a new Fred Meyer shopping center is under construction. About three years ago, one property owner paid for extension of a sewer trunk line South along the highway, bringing easy access to the sewer for the subject property. Property along Highway 97 in this area is worth $100,000 to $125,000 per acre.

The property sold on October 1, 1990, for $1.3 million, or $117,000 per acre. The land was assessed, under farm deferral, at $2,160, or $214 per acre (excluding a one-acre homesite). Taxes, at $20.89 per thousand, were $6.18 per deferred acre in 1989-90. Rollback taxes will be approximately $134,000.[53]

The property was purchased by Quality Centers, which plans a major factory outlet mall on the site, with 25 stores.

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53 Estimated as follows: 5 times the difference between current year taxes at market value and assessed value, or 5 * $20.89/1000 * ($1,300,000 - $21,060). Tax rate is for tax district 1-17, 1989-90.

5. La Grande

La Grande's comprehensive plan designates two areas as suitable for heavy industry. One is already developed, while the other is mainly in farm use now. The undeveloped area is located just south of the city limits along Highway 30, inside the urban growth boundary. Several large ownerships are in farm deferral. They have been offered for sale, but not at market-clearing prices. At a lower price, planners believe buyers could be found.

Tax deferral may contribute to the owners' willingness to wait for a high price. Taxes paid last year averaged $12 per acre for the three parcels; not a very significant holding cost. Assessed value for the properties is $372 per acre. Market value, as estimated by the Union County assessor, averages $3,473 per acre and comparable parcels have sold for much more. Based on the assessor's market value estimate, farm deferral reduced the tax bill for the three properties by over $8,000 in the 1989-90 tax year.

Tax deferral also contributes to another problem common in smaller cities: Concentration of ownership of large parcels. In a land market where ownership is concentrated, owners tend to delay development longer than in a more competitive market.[54] Tax deferral, by reducing the number of willing sellers, makes the market less competitive. These three parcels alone comprise about one-half of the available supply of industrial land in the La Grande urban growth boundary.[55]

Local planners believe that if properties such as these did not receive tax deferral, they would be developed sooner, at lower prices.

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54 See Mills, David E. 1980. "Market Power and Land Development Timing." *Land Economics* 56 (Feb): 10-20.

55 About 180 acres of industrial land are undeveloped inside the UGB. Source: City of La Grande Planning Department. Information also provided by the Union County Planning Department

Table 34
Market Value and Farm-Use Value for Three Union County Parcels
Location: T3S R38 Section 16

Tax Lot	Class	Acres	Land Value	Land Value per Acre	Assessed Land Value	Assessed Land Value per Acre
500	Farm-use (540)	10.0	$27,960	$2,796	$790	$79
	Farm-use (540)	44.0	$148,188	$3,368	$6,120	$139
	Subtotal	54.0	$176,148	$3,262	$6,910	$128
690	Farm-use (540)	0.3	$1,050	$3,889	$60	$222
	Farm-use (540)	15.1	$58,288	$3,873	$4,240	$282
	Subtotal	15.3	$59,338	$3,873	$4,300	$281
400	Farm-use (540)[56]	21.5	$80,010	$3,716	$22,600	$1,050
	Combined	90.9	$315,496	$3,473	$33,810	$372

Table 35
Tax Payments at Farm-Use Value and Market Value
Location: T3S R38 Section 16

Tax Lot	Acres	Tax District	1989-90 Tax Rate	Taxes on Assd. Value	Taxes if at Market Value	Tax per Acre - Assessed	Tax per Acre- Market
500	10.0	1-1	35.8583	$28	$1,003	$3	$100
	44.0	1-6	25.7686	$158	$3,819	$4	$87
690	0.3	1-1	35.8583	$2	$38	$8	$139
	15.1	1-6	25.7686	$109	$1,502	$7	$100
400	21.5	1-1	35.8583	$810	$2,869	$38	$133
Total	90.9			$1,108	$9,230	$12.19	$101.59

Source: Union County Assessor

56 A portion of TL 400, not included here, is not in farm deferral.

Case Studies: Conclusions

It is not possible to determine the exact role played by tax-deferral in the cases presented here. But it appears that often, if owners faced the significant holding cost of full taxation, their decisions would be different. Those who want to sell their properties might settle for a lower price, and sell sooner. Those who want to build on their properties might build sooner. And those who do not wish to convert their properties to urban uses might rethink their plans, faced with higher property taxes.

The McGill property case study illustrates that tax-deferral can serve growth management by keeping large properties intact (and productive) until services and demand can support urban-scale development. Once that point has been reached, however, it may not be desirable to continue deferral.

As illustrated by the Bend example, tax-deferred properties invariably are converted to urban uses at some point, providing a rollback tax equivalent to 10 to 12 percent of the market value of the property.

To take a more systematic view of the role of tax-deferral, the next section will present several financial models for representative types of landowners. The models estimate the effect of tax-deferral on the timing of development.

C. Tax deferral in landowner decision-making

Introduction

To assess the consequences of withdrawal of tax deferral for landowners, economics literature on farm tax preferences was reviewed, and financial modeling was used to explore the role of tax deferral in decision-making for four types of owners:

- A developer.
- A farmer who grows row crops or nursery stock.
- A fixed-income retiree.
- A large corporation.

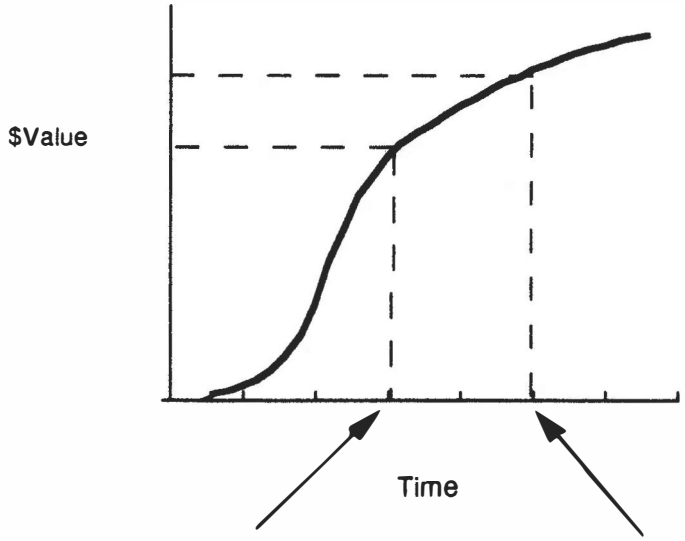
Economic analysis on the timing of development decisions begins with a simple model. Suppose that a tract of vacant land has no holding costs, including no tax burden. Demand for the land as a development site is growing each year, pushing up the value of the land with it. When should the owner convert the land to the urban use? This is a similar problem to that faced by the owner of a batch of wine or a woodlot. The asset is growing in value, but after a point, growing at a decreasing rate.

In the absence of taxes, it turns out that the optimal time to sell is when the growth rate equals the interest rate the owner could earn in alternative investments. This makes intuitive sense. The appreciation is the owner's return on investment. If the rate of appreciation is less than what the capital could earn in alternative investments, then the asset should be sold. If the annual rate of appreciation is greater than for alternative investments, then the owner should hold the asset and enjoy further appreciation.

When property taxes are added to this simple model, they act in effect as an increase in the interest rate. The optimal time to sell becomes the point at which annual appreciation is equal to the sum of the interest rate and the property tax rate. In a growing market, that will be sooner than the optimal time in the absence of taxes.

In a graph of land development value over time, the rate of increase is simply the slope of the curve. The following graph shows, conceptually, how property taxes bring forward the optimal time to convert the property to urban use. Earlier in time the property is increasing at a faster rate, so the slope of the curve is more steep. As an example, using the rule for optimal development time, if interest rates are 9 percent and the property tax rate is 3 percent, then the owner should sell when the rate of appreciation falls to 12 percent per year; in the absence of the tax, the owner should wait until the rate of appreciation falls to 9 percent per year. Obviously this model ignores many complexities of the land market, but it illustrates the basic point that ad valorem taxes on vacant land bring forward the time when it is developed.

Chart 12
Land Development Value over Time



The holding costs affect not only the timing of development, but its density, as measured by square feet of building area per acre, for example. As land grows in value, low-density development becomes less feasible; high-density development more feasible. Thus, in the absence of tax deferral, properties will tend to develop not only sooner, but also at lower densities.[57] Bentick (1979) demonstrated that taxation of vacant land at "highest and best use" value creates a bias against development projects with a long gestation period, favoring projects that produce a return more quickly. Others have confirmed Bentick's results.

57 The dynamic effects of property taxes on development timing and density are explored by Bentick (1979), Arnott (1979), Bentick and Fischer (1975), and Skouras (1978). See bibliography.

Of course, tax deferral will only promote density of development if the higher-density use is permitted by land-use regulations.

This economic model reinforces the practical concerns of planners that higher taxation of vacant land can bring premature development. Where comprehensive plans might designate an area for small-lot subdivisions served by sewers, premature development might bring 2 acre homesites served by septic tanks.

Example: Developer/Investor

Developers and those holding land as an investment would probably bring forward the time of development of their farm-deferred properties, in the absence of farm deferral. To see the effect of tax deferral, we first make the following assumptions:

- The developer owns a 100 acre property which is worth $20,000 per acre today, or $2 million in total. It is in farm deferral, and has no improvements.

- The property's assessed value is $500 per acre. The tax rate is $30 per thousand, or $15 per acre. The farm-use value is growing at 4 percent per year, and future taxes will be subject to Measure 5 limits.

- The value of the site for a subdivision is growing at 12 percent per year, but the owner expects the growth rate to slow by one percentage point per year in the future.

- If the owner withdraws the property from deferral, rollback taxes will be paid, subject to Measure 5 limits in effect the year of withdrawal. If the local government terminates deferral, no rollback taxes will be paid, but the property will begin paying taxes at market value, subject to Measure 5 limits. We also examine a 3 year phase-in of full taxation.

The development firm's decision-making is based on a discounted cash flow model. The company will select a time to convert the property from farmland to subdivision when the net present value of the expected cash flows, assuming conversion that year, is at a maximum. We treat development of the property as equivalent to a sale; the owner is assumed to realize the market value at the time of development.

Annual cash flows and present values are shown in Table 36.

With continued tax deferral, the net present value of cash flows is highest if the property is developed in 1996. If tax deferral was withdrawn today, the optimum development time moves forward to 1993. Thus the effect of withdrawal is to bring forward the time of conversion by three years. If full taxation was phased in over three years, the optimum time to develop would be the same as if it was phased in immediately.

This analysis assumes that rollback taxes would be forgiven if the local government terminates deferral. As the chart shows, if conversion occurs in the next four years, the owner is actually better off if deferral is withdrawn, since no rollback taxes would be due.

Chart 13
Net Present Value of Cash Flows
Developer/Investor Example

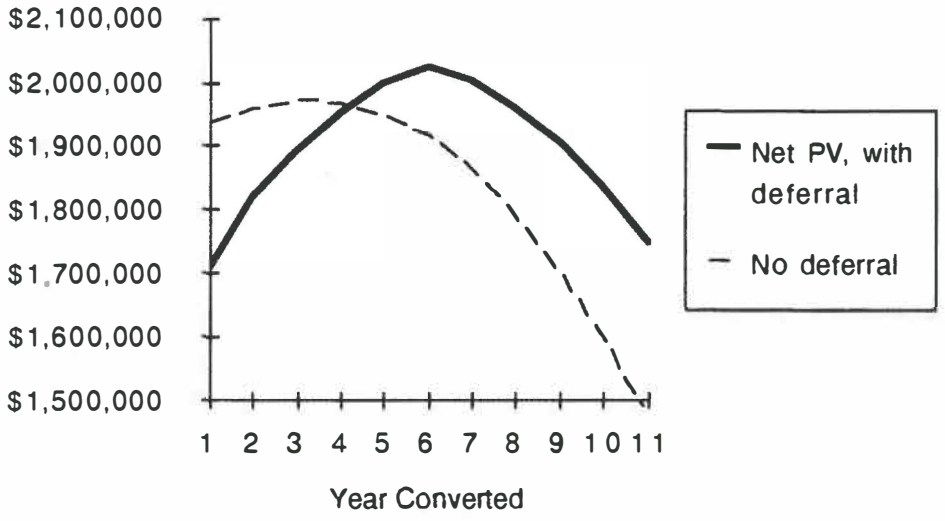


Table 36 Financial Model - Developer/Investor

	1991	1992	1993	1994	1995	1996	1997	1998
Market value	$2,000,000	$2,240,000	$2,486,400	$2,735,040	$2,981,194	$3,219,689	$3,445,067	$3,651,771
Growth Rate		12%	11%	10%	9%	8%	7%	6%
Present Value-(PV)	$2,000,000	$2,074,074	$2,131,687	$2,171,163	$2,191,266	$2,191,266	$2,170,977	$2,130,774
Assessed value	$50,000	$55,000	$60,500	$66,550	$73,205	$80,526	$88,578	$97,436
Tax limit per thousand		$25.00	$22.50	$20.00	$17.50	$15.00	$15.00	$15.00
Tax paid, no deferral								
With immediate phase-in	$60,000	$56,000	$55,944	$54,701	$52,171	$48,295	$51,676	$54,777
With 3 year phase-in	$19,980	$37,296	$55,944	$54,701	$52,171	$48,295	$51,676	$54,777
Tax paid w/deferral	$1,500	$1,375	$1,361	$1,331	$1,281	$1,208	$1,329	$1,462
Present Value	$1,500	$1,273	$1,167	$1,057	$942	$822	$837	$853
Running Total PV	$1,500	$2,773	$3,940	$4,997	$5,938	$6,760	$7,598	$8,451
Tax savings	$58,500	$54,625	$54,583	$53,370	$50,890	$47,087	$50,347	$53,315
Rollback if disqualified	$292,500	$273,125	$272,914	$266,849	$254,449	$235,437	$251,737	$266,575
Present Value	$292,500	$252,894	$233,980	$211,833	$187,028	$160,235	$158,637	$155,544
Net PV if developed this Year, with deferral	$1,706,000	$1,818,407	$1,893,767	$1,954,333	$1,998,300	$2,024,271	$2,004,742	$1,966,779
Annual taxes w/o deferral	$60,000	$56,000	$55,944	$54,701	$52,171	$48,295	$51,676	$54,777
Present Value	$60,000	$51,852	$47,963	$43,423	$38,347	$32,869	$32,565	$31,962
Running Total PV	$60,000	$111,852	$159,815	$203,238	$241,585	$274,454	$307,019	$338,980
Net PV if developed this Year, w/o deferral	$1,940,000	$1,962,222	$1,971,872	$1,967,925	$1,949,681	$1,916,812	$1,863,958	$1,791,793
Annual holding cost w/3 yr phase-out								
Annual taxes w/3 yr.phase-i	$19,980	$37,296	$55,944	$54,701	$52,171	$48,295	$51,676	$54,777
Present Value	$19,980	$34,533	$47,963	$43,423	$38,347	$32,869	$32,565	$31,962
Running Total PV	$19,980	$54,513	$102,476	$145,900	$184,247	$217,116	$249,680	$281,642
Net PV if developed this Year, w/ 3 yr phaseout	$1,980,020	$2,019,561	$2,029,211	$2,025,263	$2,007,020	$1,974,151	$1,921,296	$1,849,132

Example: Farmer

Returning to the same property, we now assume the owner is a farmer who makes a significant portion of his personal income from the land. We assume the land produces gross income of $250 per acre, and net income of $76 per acre, growing 4 percent per year.[58] If the farmer wishes to continue farming, a key factor will be his net income, after withdrawal of tax deferral.

Loss of tax deferral without any provision for delaying tax payments would probably lead to a decision to sell the property fairly quickly. Net income from farming would drop from $7,600 to a loss of over $50,000 in the first year. With a three year phase-in of full taxation, the farmer would still see a loss of more than $10,000 in the first year. If the taxes had to be paid when due, the farmer could have a serious liquidity problem. On the other hand, if the tax liability could be accrued, the farmer could continue farming, and settle the tax debt upon sale of the property. But even with accrual of the liability, the farmer would be motivated to sell sooner, since the growing tax debt would steadily reduce the future proceeds of a property sale.

If the farmer had an additional 100 acres remaining in deferral, the percentage reduction in net income would be less, but overall net income would still be negative if deferral was withdrawn from the other 100 acres.

This example illustrates how the financial feasibility of farming in urban areas hinges on preferential property tax treatment.

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58 This net income is implied by the assessed land value of $500 per acre. The Department of Revenue currently specifies an interest rate of 12.12 percent for capitalizing farm income. The local tax rate is added to the interest rate to determine a capitalization rate. Assuming a tax rate of $30 per thousand, the capitalization rate would be 15.12 percent. Since the farm value is calculated as the net income divided by the capitalization rate, the implied net income is 0.1512 * $500, or $75.60.

Chart 14
Farm Net Income
With and Without Tax Deferral

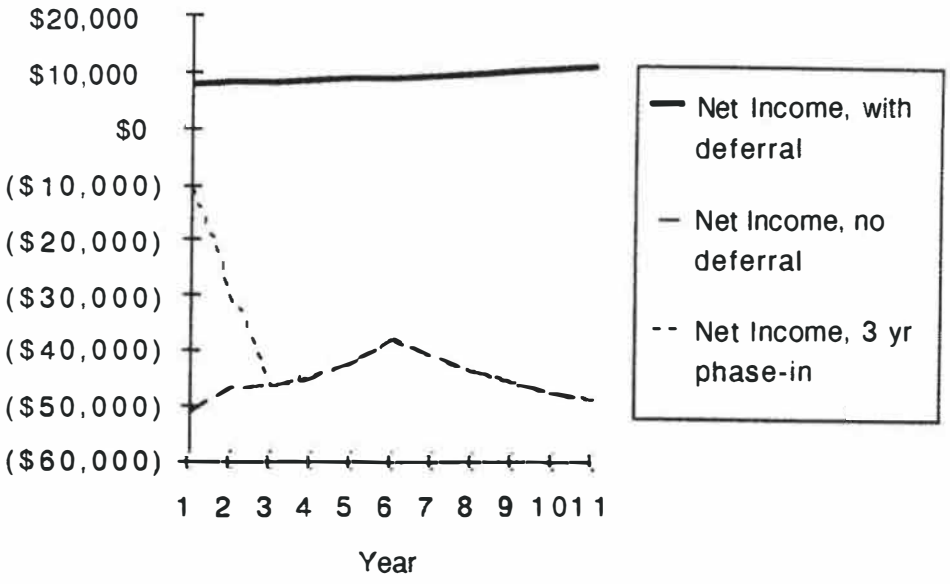

Table 37 Financial Model - Farmer

	1991	1992	1993	1994	1995	1996	1997
Market value	$2,000,000	$2,200,000	$2,420,000	$2,662,000	$2,928,200	$3,221,020	$3,543,122
Assessed value	$50,000	$55,000	$60,500	$66,550	$73,205	$80,526	$88,578
Tax limit per thousand		$25.00	$22.50	$20.00	$17.50	$15.00	$15.00
Tax paid, no deferral							
With immediate phase-in	$60,000	$55,000	$54,450	$53,240	$51,244	$48,315	$53,147
With 3 year phase-in	$19,980	$36,630	$54,450	$53,240	$51,244	$48,315	$53,147
Tax paid w/deferral	$1,500	$1,650	$1,815	$1,997	$2,196	$2,416	$2,657
Tax savings	$58,500	$53,350	$52,635	$51,244	$49,047	$45,900	$50,489
Rollback if disqualified	$292,500	$268,125	$265,444	$259,545	$249,812	$235,537	$259,091
Farm Gross Income	$25,000	$26,000	$27,040	$28,122	$29,246	$30,416	$31,633
Net Income with deferral	$7,300	$7,592	$7,604	$7,605	$7,605	$7,605	$7,605
Net Income without deferral							
Immediate phase-in	($51,200)	($45,758)	($45,031)	($43,639)	($41,443)	($38,295)	($42,885)
3 year phase-in	($11,180)	($27,388)	($45,031)	($43,639)	($41,443)	($38,295)	($42,885)

Example: Retiree

Next we consider the situation of a retiree with a fixed income of $25,000 per year, owning a 10 acre vacant parcel. The property is planted in Christmas trees, and yields a net income of $30 per acre, after payment of property taxes at the farm-deferred value. Withdrawal of deferral would reduce the net income from the property to a loss of $5,550 in the first year, or a loss of $1,548 with a three year phase-in. Without the flexibility to delay payments, the retiree would probably be forced to sell the property quickly. However, an option to accrue taxes, rather than paying them when due, would allow the retiree to postpone the sale of the property, easing the impact of full taxation.

Table 38 Financial Model - Retiree

	1991	1992	1993	1994	1995	1996	1997	1998
Market value	$200,000	$220,000	$242,000	$266,200	$292,820	$322,102	$354,312	$389,743
Growth Rate		10%	10%	10%	10%	10%	10%	10%
Assessed value	$5,000	$5,500	$6,050	$6,655	$7,321	$8,053	$8,858	$9,744
Tax limit per thousand		$25.00	$22.50	$20.00	$17.50	$15.00	$15.00	$15.00
Tax paid, no deferral								
With immediate phase-in	$6,000	$5,500	$5,445	$5,324	$5,124	$4,832	$5,315	$5,846
With 3 year phase-in	$1,998	$3,663	$5,445	$5,324	$5,124	$4,832	$5,315	$5,846
Tax paid w/deferral	$150	$138	$136	$133	$128	$121	$133	$146
Tax savings	$5,850	$5,363	$5,309	$5,191	$4,996	$4,711	$5,182	$5,700
Gross Income	$25,000	$26,000	$27,040	$28,122	$29,246	$30,416	$31,633	$32,898
Net Farm Income								
with deferral	$300	$312	$324	$337	$351	$365	$380	$395
no deferral	($5,550)	($5,051)	($4,984)	($4,853)	($4,645)	($4,346)	($4,802)	($5,305)
3 yr phase-in	($1,548)	($3,214)	($4,984)	($4,853)	($4,645)	($4,346)	($4,802)	($5,305)

Example: Corporation

Some corporations, such as NEC in Washington County, hold significant amounts of farmland near their headquarters or plants. Often this property is for their own future use. Being contiguous to their current location, it is uniquely valuable for the owners. It is likely that the corporate owners would be less likely to change plans if tax deferral was withdrawn, since their decision-making is governed mainly by their own space needs. Taxes at full market value would not present a liquidity problem for a large corporation.

D. Tax deferral as a growth management tool

One goal of growth management is the containment of urban areas. Oregon's planning goals envision achieving a desirable urban development pattern not only by drawing urban growth boundaries, but by encouraging higher densities inside UGBs and targeting development where it can be best accommodated.

The preceding financial analyses have made clear that tax deferral affects the timing of development decisions. Tax-deferred land does not remain in farm or forest use forever, but it is developed later under deferral than it would be without deferral.

Tax deferrals for farm and forestland affect not only the timing, but also the intensity of development. With a low assessment, owners can better afford to wait longer before converting their land to urban uses. As urban areas grow over time, land values increase, and the optimal intensity of use for a parcel also increases. A site suited only for large-lot homesites at one point may be suitable for a shopping center or apartment building at a later point. Since tax deferral allows the property owner to wait while demand grows, it actually encourages, in the long run, higher-density development, promoting a common goal of growth management.

However, once services and demand can support urban-scale development, continued tax deferral for a farm or forest property can create growth management problems. Tax deferral may exacerbate shortages of land zoned for particular uses, and confer monopoly power on land owners to command inflated prices. Moreover, the tax revenue foregone on the farm and forest parcels continues to climb, while other landowners shoulder the cost of public services for the property.

To conclude this section, farm and forest deferrals contribute to growth management in unserviced areas not ready for development, but can have adverse effects in areas where development is timely. The next section investigates how changes in the farm and forest tax laws could increase their value in managing urban growth.

E. Policy options

Evaluation criteria

In evaluating alternative policies for farm and forest deferral in urban areas, we use the following criteria:

- Consistency with Oregon's statewide planning goals.
- Consistency with the legislative intent of Oregon's tax deferral laws (to maintain the feasibility of farming and forestry in the face of urbanization pressures).
- Taxpayer equity.
- Administrative feasibility

Before discussing policy alternatives, we evaluate the existing application of deferrals inside UGBs according to these criteria.

LCDC's urbanization goal states that land within urban growth boundaries "shall be considered available over time for urban uses." Conversion of undeveloped land should be governed by four factors, according to the goals:

"1. Orderly, economic provision for public facilities and services;
2. Availability of sufficient land for the various uses to insure choices in the market place;
3. LCDC goals; and,
4. Encouragement of development in urban areas before conversion of urbanizable areas."

Tax-deferred land within UGBs, remains "available over time for urban uses," like other vacant land, so tax deferral does not conflict with the basic concept of of urban growth boundaries. Tax deferral may, however, conflict with the some of the criteria for converting land to urban uses. Economic provision of public services could be hampered if development leapfrogs over farm and forest parcels. Choice in the market place could be restricted if there are shortages of land and owners of tax-deferred property hold out for high prices. Finally, if tax deferral is available anywhere within the UGB it does not serve to encourage development within urban areas before conversion of urbanizable areas.

Tax deferral promotes most other LCDC objectives. It encourages the maintenance of farm and forest productivity; it provides open space; and it conserves natural areas.

On taxpayer equity grounds, the chief objection to tax deferral is that it allows owners of farm and forestland to benefit from the provision of public services, as their property value grows, while paying very low taxes during the time the property is in farm or forest use. The rollback tax addresses this departure from the benefit principle of public finance, by charging a fee equal to about five years of back taxes upon conversion.[59] Whether that is sufficient compensation can be debated, but it certainly offsets the tax shift significantly.

Even before considering the effect of the rollback, tax deferral in UGBs increases overall tax rates by less than one percent in many areas, and less than four percent in the area with the greatest estimated tax shift (Washington County). If tax deferral provides important benefits for growth management and land conservation, this modest cost may be acceptable.

In terms of administrative feasibility, the existing tax deferral system presents few problems. Farm-use and forest-use values are readily estimated using income statistics. (Most assessment departments today do not estimate market value for tax-deferred properties, since it is not needed to calculate taxes. However, they will need to do so to meet Measure 5 requirements). Tax and rollback calculations are straightforward. The major administrative problem is determining that farm properties in non-EFU areas meet the income tests.

Options for limiting deferrals

We now evaluate four alternatives for limiting tax deferrals inside UGBs:

a. Phase out all tax deferrals inside UGBs or inside cities.
b. Apply stricter income or stocking requirements.
c. Increase minimum parcel sizes required for eligibility.
d. Condition eligibility on zoning designations.

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59 Unfortunately, Measure 5 could invalidate the rollback tax provisions, making the tax-deferral system more unfair to those taxpayers who do not own farm or forestland.

Phase out all tax deferrals inside UGBs or inside cities.

Wholesale elimination of farm and forest deferrals inside UGBs would cause premature, low-density development; needlessly disrupt farming operations; and consume open space unnecessarily, because much tax-deferred land is located in areas where development is not yet timely. Phasing out deferrals inside city limits would cause the same problems, albeit to a lesser degree. Many cities have tax-deferred land that should not be developed currently, because of inadequate demand, slopes, drainage conditions, or scenic or natural values. At the same time, some unincorporated areas have adequate services through special districts and can support urban-scale development. Both UGBs and city boundaries, then, are flawed foundations for determining where to phase out deferrals.

Apply stricter income or stocking requirements.

Stricter income requirements, or tree-stocking requirements for forestland, would be aimed at reducing participation by owners who are not "bona fide" farmers. There certainly appears to be scope for tightening these requirements, for example by indexing the income minimums to inflation. However, such changes would provide no particular growth management benefits. From a growth management standpoint, the advantage of tax deferral is that it reserves unserviced land for future development, not that it encourages intensive farming. By reducing the amount of land in farm and forest deferral, where services and demand do not presently support urban development, tougher income requirements would conflict with the need to reserve land for future growth, because full taxation would promote premature development.

However, an income test could provide the basis for an exception where tax deferrals are being phased out. For example, owners who derive more than half their income from their farm property could be exempted from a phase-out of deferral in an area targeted for development. It would be preferable, however, to provide for accrual of full tax liability for properties being withdrawn from deferral. That would make it possible for full-time farmers to continue farming for a period of time, since they could settle the tax liability at the time the property is sold, and would also avert financial hardship for other owners who are not full-time farmers.

Increase minimum parcel sizes required for eligibility.

Increasing minimum parcel sizes would yield benefits for growth management, and would also protect resource land outside UGBs from partitioning and homesite development, if implemented statewide. The fragmentation of farm and forestland not only reduces its productivity; it also makes future development at urban densities difficult or impossible. By providing preferential tax status to large-lot homesites, the tax deferral laws promote what they were intended to discourage: the premature loss of productive farm and forestland. The prevalence of homesites on tax-deferred land is illustrated by Multnomah County, where fully a third of the tax-deferred acreage contains a single-family home.

Presently land in farm deferral is disqualified if it is platted for subdivision. However, large-lot partitions are not considered subdivisions.

A stronger partitioning rule would deny tax deferral to any new parcel of ten acres or less. Thus if a 20 acre farm was split into four "hobby farms" of five acres, the new parcels would not qualify for tax deferral. Of course, such partitions would continue to occur, but they would not be fostered by the tax laws, and would be fewer in number. Existing small parcels would remain in tax deferral.

Certain exceptions may be needed. An exception might be justified when a large farm acquires new acreage, not in deferral, in a parcel of ten acres or less. Such exceptions should be considered in drafting legislation.

Denying tax deferral to new parcels of ten acres or less would be consistent with LCDC goals for both resource lands and urbanization. It would not cause inequities to owners of farmland; only future partitions would be affected, so no current farm-deferred property would lose deferral because of the change. Finally, it would be simple to administer, being based on a value which can be readily determined: the size of a parcel.

Condition eligibility on zoning designations.

The availability of urban services provides a logical basis for determining where tax deferral should be terminated. Zoning designation probably provide the best means for implementing that standard. Local governments could group zones into two groups: those where urban services are adequate to support urban development, and those where services are inadequate. Tax deferral could be terminated in the former and maintained in the latter.

Withdrawing farm and forest deferral in well-serviced urban areas would accelerate development of the tax-deferred acreage. Resource lands would be lost, but in such areas their eventual conversion to urban uses would be inevitable anyway. Therefore this proposal would not seriously conflict with the intent of Oregon's farm and forest tax laws. The amount of acreage affected, at any rate, would be tiny compared to the total acreage in farm and forest deferral.

In terms of taxpayer equity, the greatest objection to selective withdrawal of deferrals is that owners of farmland would be taken by surprise by new tax burdens which could dramatically affect them. Those who have made long-term plans, and substantial investments in farming, expecting continued tax deferral, would probably object to changes in the rules. However, the tax-deferral laws cannot be expected to remain fixed indefinitely; in fact, they have been altered by nearly every Oregon legislature since they were first enacted.

Moreover, the transition to taxation at market value could be eased in two ways. One alternative is to phase in full taxation over a period of three to five years. For example, in the first year the tax bill might be 33 percent of what it would be at full market value; the second, 66 percent; and the third, 100 percent. While this would reduce financial hardship, many owners would still have liquidity problems, since their property would not produce adequate income to cover even the reduced tax burden.

A second alternative would be to begin assessing full taxes immediately, but to allow owners to accrue the liability for later settlement when the property is sold or developed. In effect, that would be a true tax deferral system, where tax payments can be delayed, but not avoided, and interest is charged on the outstanding debt. With those terms, the program would not provide a net financial benefit to owners, but would supply them with a loan, secured by their property.

The net tax revenue gains from selective termination of deferral would be less significant than the tax shift estimates may imply. First, only part of the urban farm and forest acreage would be affected. Second, rollback taxes would be forgiven. These amount to 10 to 13 percent of the market value of properties being converted for development. Owners planning to convert their properties in the next 5 years or so would actually profit from the loss of deferral. If full taxation was also phased in over a period of years, the fiscal effect on local governments would be smaller still.

Administratively, implementing the selective withdrawal of deferral would present challenges to local governments. Determining where deferral should be withdrawn would be complex, and planning departments would need to update their determinations regularly. Handling termination would also be complex, especially if an option is provided to accrue tax liabilities for future settlement. Still, these administrative obstacles should not be insurmountable.

For some local governments, however, the benefits of selective withdrawal might not justify the costs. Cities which have only a few acres of tax-deferred property, and understaffed planning departments, might well prefer not to participate. Larger jurisdictions with more capacity for active growth management would probably be more interested in using tax deferral as a growth management tool.

Given the range of planning capabilities, market conditions, and land-use policies found in different areas, local governments should not be required to implement selective withdrawal of tax deferral. Instead, it should be made available to those jurisdictions electing to use it.

To conclude the evaluation of alternatives for limiting deferrals, we make two recommendations: first, that the tax laws provide disincentives for partitioning, and second, that the legislature give local governments the authority to selectively withdraw tax deferral in serviced areas.

Changes in open space taxation

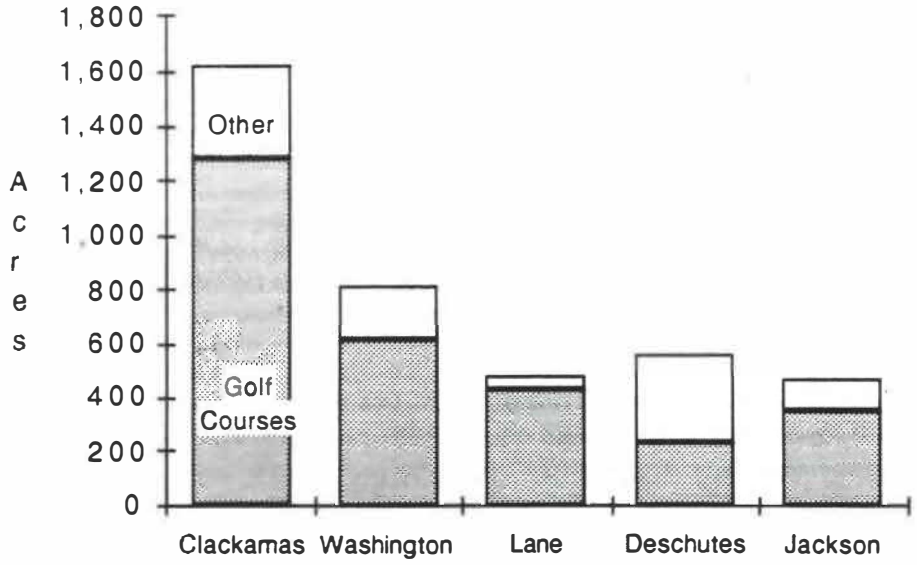
Tax deferral can help delay or prevent development where it is not timely. It may therefore warrant a greater role in land-use planning and growth management, for land other than farm and forestland. In fact, Oregon already provides preferential taxation of open space lands which are not farm or forestland. The purpose of the open space tax law is stated as the preservation of open space for public health and enjoyment, through prevention of tax-induced conversions.

The existing open space tax program provides true tax deferral to properties, when they are approved as open space by local governing bodies. The owner can withdraw the property from the program for development at any time, but then all back taxes are due, with interest at 8.3 percent per year[60]. Applying for the tax status requires the same process as a comprehensive plan change, including public hearings. Local governments have full discretion in deciding whether a property should have open space status.

Very few of the landowners who could participate in this program have taken advantage of it. This may be attributable to a combination of: the financial terms of the program; the laborious application process (with an uncertain outcome); lack of interest from local governments; or lack of publicity. Chart 15 shows the county-wide acreage in the open space program for five of the counties sampled in this study. Aside from golf courses, only a few hundred acres have been designated open space in these counties.

60 ORS 308.740 - 790. Interest is set at two-thirds of one percent a month.

Chart 15
Designated Open Space Under
ORS 308.740-790[61]



The main reason more landowners have not applied for the open space tax program is probably that it provides insufficient benefits, in terms of tax reduction, to warrant the time and expense of participation.

Changes in the open space program should be considered to make it a more effective tool for local governments. First, more real tax reduction should be offered, by limiting the number of years of back taxes payable on withdrawal, reducing the interest rate, or both. Second, in exchange for tax reduction, participants should make a commitment to open space for a period of time. That would screen out owners not willing to make at least a temporary commitment to open space use.

With these changes, the open space program could be used by local governments in a variety of situations. It could forestall development of significant natural areas, areas with steep slopes or floodplain hazards, and areas targeted for eventual acquisition by the public sector. If farm and forest deferral is terminated in serviced areas, some properties may fall into these categories, and could be transferred to the open space program.

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61 Source: Oregon Department of Revenue.

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