

PUBLIC HEARING

before the

SENATE REVENUE, FINANCE AND APPROPRIATIONS COMMITTEE

on

Senate Bills 935 and 1144
(Farmland Assessment)

and

Senate Bill 3349
(Deferred Assessment on Commercial and Industrial Properties)

Held:
November 25, 1975
Senate Chamber
State House
Trenton, New Jersey

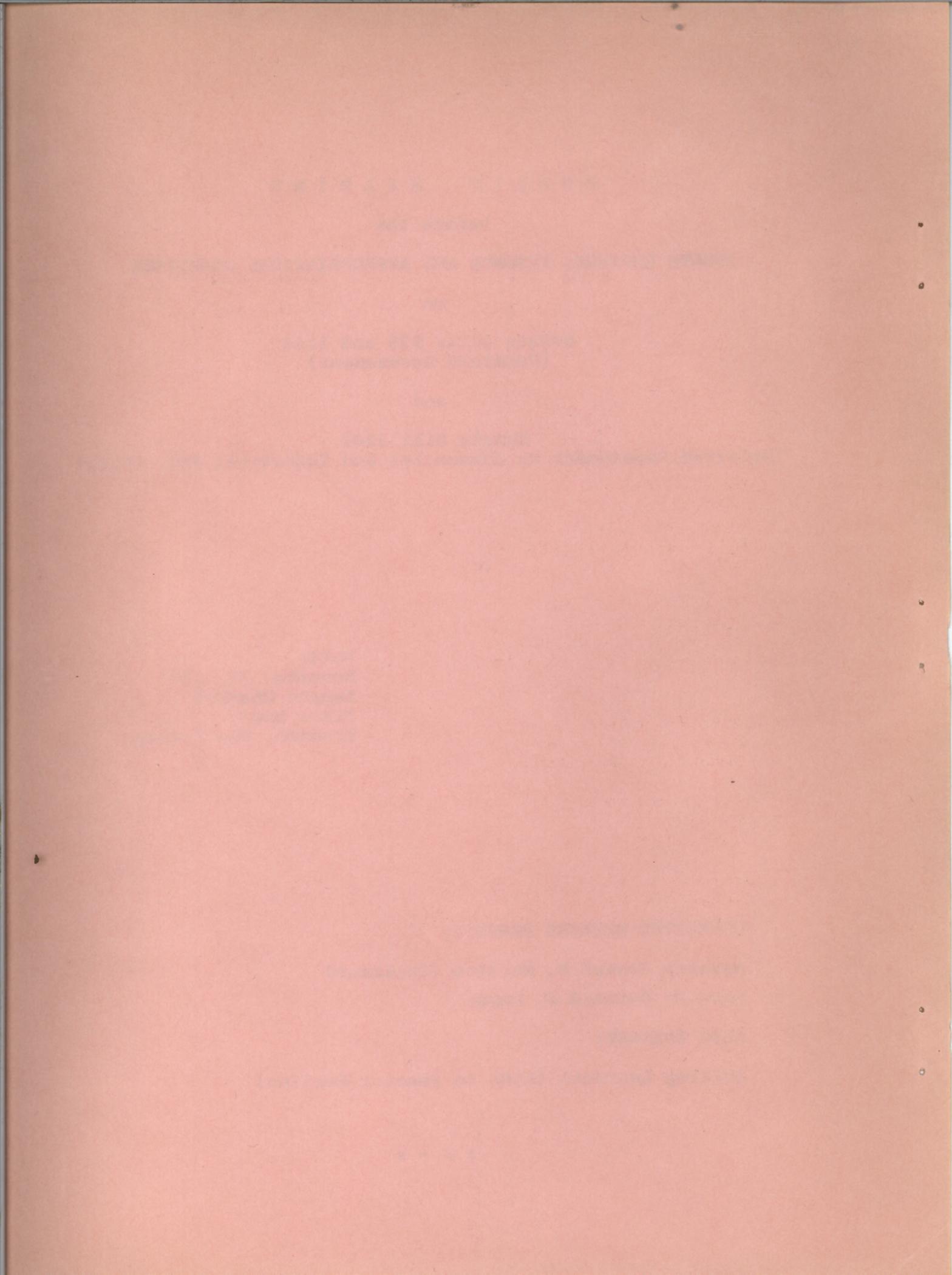
COMMITTEE MEMBERS PRESENT:

Senator Joseph P. Merlino (Chairman)
Senator Bernard J. Dwyer

ALSO PRESENT:

Jeffrey Laurenti (Aide to Senator Merlino)

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Statement by Sidney Glaser
Director
Division of Taxation

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SENATE, No. 935

STATE OF NEW JERSEY

INTRODUCED MARCH 18, 1974

By Senator ZANE

Referred to Committee on Revenue, Finance and Appropriations

AN ACT to amend the "Farmland Assessment Act of 1964," approved May 11, 1964 (P. L. 1964, c. 48).

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 5 of P. L. 1964, c. 48 (C. 54:4-23.5) is amended to
2 read as follows:

3 5. Land, five acres in area, shall be deemed to be actively devoted
4 to agricultural or horticultural use when the gross sales of agricul-
5 tural or horticultural products produced thereon together with any
6 payments received under a soil conservation program have aver-
7 aged at least \$500.00 per year during the 2-year period immediately
8 preceding the tax year in issue, or there is clear evidence of antici-
9 pated yearly gross sales and such payments amounting to at least
10 \$500.00 within a reasonable period of time; *however, in the case of*
11 *woodland or wetland, the land shall be deemed to be actively de-*
12 *voted to agricultural or horticultural use when the gross sales of*
13 *agricultural or horticultural products produced on the area together*
14 *with any payments received under a soil conservation program*
15 *have averaged at least \$0.50 per acre per year with minimum sales*
16 *of \$50.00 per year during the 2-year period immediately preceding*
17 *the tax year in issue, or there is clear evidence of anticipated yearly*
18 *gross sales and such payments amounting to at least \$50.00 and an*
19 *average of at least \$0.50 per acre per year within a reasonable*
20 *period of time.*

21 In addition, where the land is more than five acres in area, it shall
22 be deemed to be actively devoted to agricultural or horticultural
23 use when the gross sales of agricultural or horticultural products
24 produced on the area above five acres together with any payments
25 received under a soil conservation program have averaged at least
26 \$5.00 per acre per year during the 2-year period immediately pre-
27 ceding the tax year in issue, or there is clear evidence of anticipated

28 yearly gross sales and such payments amounting to an average of at
29 least \$5.00 per year within a reasonable period of time; except in the
30 case of woodland and wetland, where the minimum requirement
31 shall be an average of \$0.50 per acre on the area above five acres.

32 Land previously qualified as actively devoted to agricultural or
33 horticultural use under the act; but failing to meet the additional
34 requirement on acreage above five acres shall not be subject to the
35 roll-back tax because of such disqualification, but shall be treated
36 as land for which an annual application has not been submitted.

1 2. This act shall take effect immediately except that the tax year
2 1975 shall be the first tax to which the amendatory provisions of
3 this act shall apply.

STATEMENT

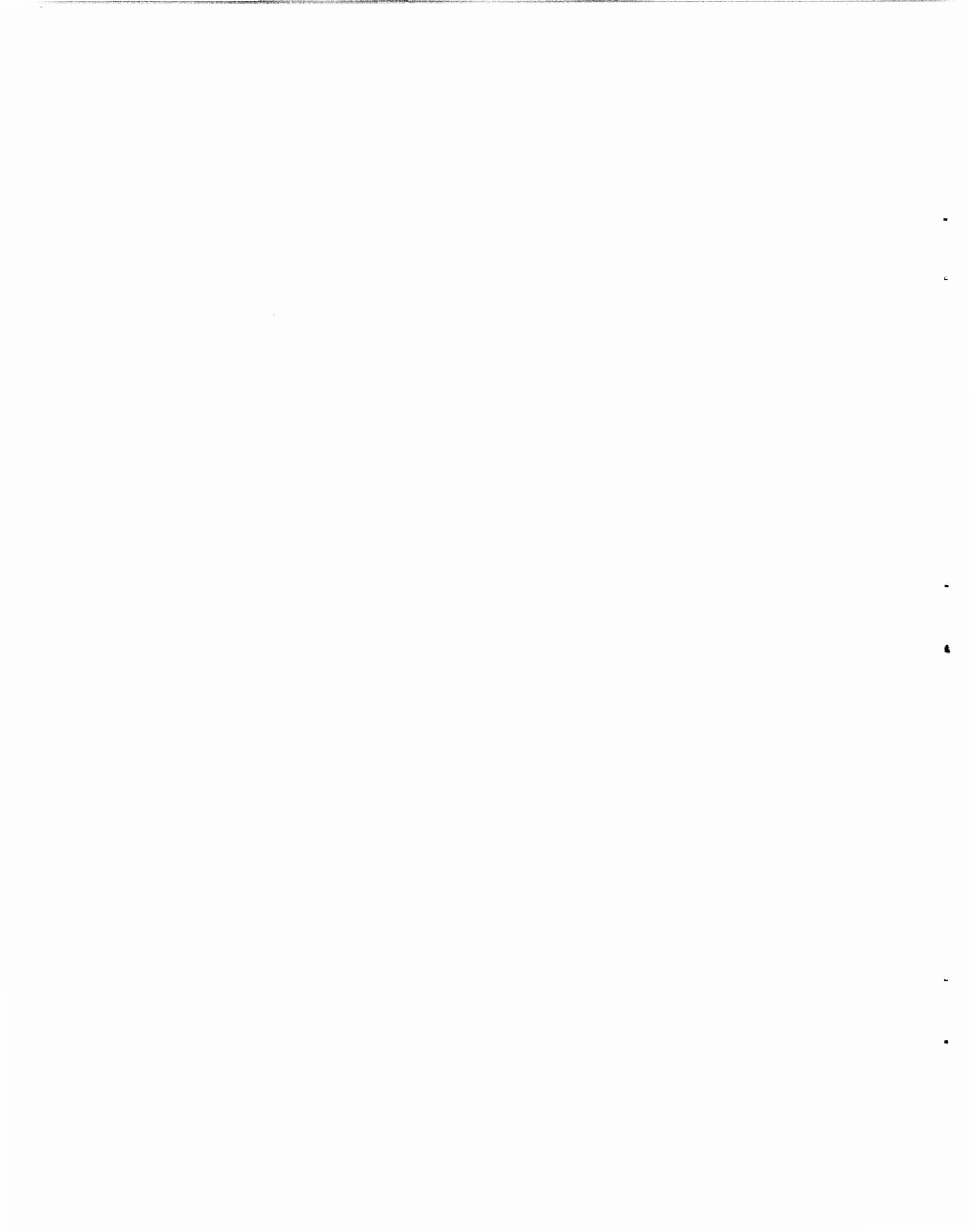
The Farmland Assessment Act of 1964 has been very successful in its purposes of preserving open space, promoting agricultural and horticultural uses, and reducing the tax pressure on farming. This act amends the Farmland Assessment Act by broadening its scope to further promote the preservation of woodlands and wetlands by providing both a lower minimum standard and a sliding per acre scale on the amount of sales of agricultural products necessary to qualify for farmland assessment.

SENATE REVENUE, FINANCE, AND APPROPRIATIONS COMMITTEE

Statement to Senate Bill No. 935

This bill proposes to amend the "Farmland Assessment Act of 1964" as concerns woodland and wetland. Currently land five acres in area devoted to agricultural or horticultural use is extended the special farmland assessment if income from products produced on the land has averaged \$500.00 per year. As proposed in this bill, an exception to this requirement is made in the case of woodland or wetland, requiring an average of \$0.50 per acre per year with minimum sales of \$50.00 per year.

This reduced income requirement is currently applicable to the increment of woodland or wetland in excess of five acres requiring an average of \$0.50 per acre. This bill extends that special assessment to the first five acres of woodland or wetland.



SENATE, No. 1144

STATE OF NEW JERSEY

INTRODUCED APRIL 29, 1974

By Senator FAY

Referred to Committee on Revenue, Finance and Appropriations

AN ACT to amend the "Farmland Assessment Act of 1964," approved May 11, 1964 (P. L. 1964, c. 48).

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 5 of P. L. 1964, c. 48 (C. 54:4-23.5) is amended to read
2 as follows:

3 5. Land**[, 5 acres in area,]** shall be deemed to be actively de-
4 voted to agricultural or horticultural use when the gross sales of
5 agricultural or horticultural products produced thereon **[together**
6 **with any payments received under a soil conservation program]**
7 have averaged at least \$500.00 per year *plus an average of \$10.00*
8 *per acre for each acre over 5 acres* during the 2-year period im-
9 mediately preceding the tax year in issue**],** or there is clear evi-
10 dence of anticipated yearly gross sales and such payments amount-
11 ing to at least \$500.00 within a reasonable period of time**].**

12 **[In addition, where the land is more than 5 acres in area, it**
13 **shall be deemed to be actively devoted to agricultural or horticultural**
14 **use when the gross sales of agricultural or horticultural**
15 **products produced on the area above 5 acres together with any**
16 **payments received under a soil conservation program have aver-**
17 **aged at least \$5.00 per acre per year during the 2-year period**
18 **immediately preceding the tax year in issue, or there is clear evi-**
19 **dence of anticipated yearly gross sales and such payments amount-**
20 **ing to an average of at least \$5.00 per year within a reasonable**
21 **period of time; except in the case of woodland and wetland, where**
22 **the minimum requirement shall be an average of \$0.50 per acre on**
23 **the area above 5 acres.]**

24 **[Land previously qualified as actively devoted to agricultural or**
25 **horticultural use under the act; but failing to meet the additional**

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

26 requirement on acreage above 5 acres shall not be subject to the
 27 roll-back tax because of such disqualification, but shall be treated
 28 as land for which an annual application has not been submitted.】

29 *When an owner of land devoted to agricultural or horticultural*
 30 *use and whose principal business is farming has 100 acres or more*
 31 *which qualify under the provisions of this act, he shall be entitled*
 32 *to have woodlands and wetlands valued, assessed and taxed as*
 33 *farmland up to, but not in excess of, 20% of the land qualified*
 34 *hereunder.*

35 *For the purpose of this section, "wetlands" mean land which*
 36 *has water at or near the surface during a considerable part of the*
 37 *year due to high-water table, slow permeability, seepage, tidal*
 38 *action, flooding, or a combination of these factors, or is otherwise*
 39 *covered by water during a considerable part of the year; and*
 40 *"woodlands" mean land supporting trees and woody vegetation*
 41 *producing forest products or reasonably contributing to the agri-*
 42 *cultural or horticultural use of the land.*

1 2. Section 8 of P. L. 1964, c. 48)C. 54:4-23.8) is amended to
 2 read as follows:

3 8. When land which is in agricultural or horticultural use and
 4 is being valued, assessed and taxed under the provisions of this
 5 act, is applied to a use other than agricultural or horticultural,
 6 including farmland which does not qualify under the provisions
 7 of this act, it shall be subject to additional taxes, hereinafter re-
 8 ferred to as rollback taxes, in an amount equal to the difference,
 9 if any, between the taxes paid or payable on the basis of the valua-
 10 tion and the assessment authorized hereunder and the taxes that
 11 would have been paid or payable had the land been valued, assessed
 12 and taxed as other land in the taxing district, in the current tax
 13 year (the year of change in use) and in such of the 【2】 5 tax years
 14 immediately preceding, in which the land was valued, assessed and
 15 taxed as herein provided.

16 If in the tax year in which a change in use of the land occurs,
 17 the land was not valued, assessed and taxed under this act, then
 18 such land shall be subject to rollback taxes for such of the 【2】 5
 19 tax years, immediately preceding, in which the land was valued,
 20 assessed and taxed hereunder.

21 In determining the amounts of the rollback taxes chargeable
 22 on land which has undergone a change in use, the assessor shall
 23 for each of the rollback tax years involved, ascertain:

24 (a) The full and fair value of such land under the valuation
 25 standard applicable to other land in the taxing district;

26 (b) The amount of the land assessment for the particular tax
27 year by multiplying such full and fair value by the county percent-
28 age level, as determined by the county board of taxation in accord-
29 ance with section 3 of P. L. 1960, c. 51 (C. 54:4-2.27);

30 (c) The amount of the additional assessment on the land for
31 the particular tax year by deducting the amount of the actual as-
32 sessment on the land for that year from the amount of the land
33 assessment determined under (b) hereof; and

34 (d) The amount of the rollback tax for that tax year by multi-
35 plying the amount of the additional assessment determined under
36 (c) hereof by the general property tax rate of the taxing district
37 applicable for that tax year.

1 3. This act shall take effect immediately and shall be applicable
2 with respect to the tax year 1975 and thereafter.



MAJOR FEATURES OF PROPOSED AMENDED
"FARMLAND ASSESSMENT ACT OF 1964"

	<u>CURRENT</u>	<u>PROPOSED</u>
<u>Land Use</u>	Horticulture/Agric.	Same
<u>Land Area</u>	5 acres and over 5 acres	All
<u>Gross Income</u>		
1. First 5 acres	\$500/yr.	\$500/yr.
2. Land Area in excess of 5 acres	\$5/acre	\$10/acre
<u>Gross Income Inclusion</u>	Product value plus soil conservation payments	Product value only
<u>Indicated Future Income</u>	Clear evidence of anticipated gross sales qualifying	Not considered
<u>Wetland or Woodland</u>		
1. Area	Above 5 acres	100 acres or more 20% of total acre.
2. Income per Acre	.50/acre	Non prescribed
<u>Land Use Change</u>	Roll-back 2 yrs. where use is other than Agri/hortic.	Roll-back 5 yrs. any change including to farmland not qualifying

SENATE REVENUE, FINANCE, AND APPROPRIATIONS COMMITTEE

STATEMENT ON S-1144

Land actively devoted to agricultural or horticultural use is specially valued, assessed, and taxed pursuant to the "Farmland Assessment Act of 1964" (P.L. 1964, c. 48). This bill proposes to amend sections 5 and 8 of that act which prescribe the criteria by which land qualifies for special assessment, and imposes a roll-back tax and method for assessing land for such roll-back taxes, respectively. Currently, land five acres in area and land in excess of five acres in area are separately treated. Land five acres in area qualifies for special assessment when gross sales of agricultural or horticultural products produced thereon have averaged at least \$500.00 per year during the two-year period immediately preceding the tax year or where there is clear evidence that gross sales will be at least that amount within a reasonable time. Payments received under a soil conservation program are included when determining gross sales. Where the land is more than five acres, gross sales, together with payments under a soil conservation program, must have averaged at least \$5.00 per acre for the immediately preceding two-year period. The exception to this is in the care of woodland or wetland where the minimum income must average 50¢ per acre for the land increment in excess of five acres.

This gross income requirement is amended by the provisions of this bill. To qualify for the special assessment, gross sales of agricultural or horticultural products produced on the land must have averaged \$500.00 per year plus an average of \$10.00 per acre for each acre over five acres during the immediately preceding two-year period. This requirement is absolute notwithstanding clear evidence that yearly gross sales will reach the required level within a reasonable period of time. Payments received under a soil conservation program are not included in determining gross income. Further, "wetland" or "woodland" is qualified for the special valuation, assessment, and taxation under this act only where the principal business is farming and the total qualifying land area is 100 acres or more, but such land cannot exceed 20 percent of the total acreage qualified for the special assessment.

The tax roll-back provision is extended to impose a five-year versus the current two-year roll-back period. This provision is applicable under the current act where land qualified under the act is applied to a use other than agricultural or horticultural. As revised, the roll-back provision would include change in use to farmland which does not qualify under the act for special assessment. This is a significant change in that as now provided such land previously qualified but failing to meet the additional requirement on acreage above five acres is explicitly not subject to roll-back taxes, but rather treated as land for which a special assessment application has not been submitted.

SENATE, No. 3349

STATE OF NEW JERSEY

INTRODUCED SEPTEMBER 4, 1975

By Senator MERLINO

Referred to Committee on Revenue, Finance and Appropriations

AN ACT to provide for exemption from taxation in certain cases,
and supplementing chapter 4 of Title 54 of the Revised Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. The Legislature finds that:

2 a. The downward transition of many New Jersey communities
3 from sound and stable neighborhoods to blighted areas directly
4 reflects the changing economic base of those communities.

5 b. The incursion of blight into residential neighborhoods is
6 inseparably related to the decline in the commercial and industrial
7 life of those communities.

8 c. Property taxation in such communities is commonly at rates
9 so high that it becomes more feasible for investors, small business
10 and industry to abandon an urban facility rather than improve it
11 and be faced with paying what is effectively a substantial tax
12 penalty for such improvements.

13 d. The impact of the migration of economic enterprise from
14 urban centers results not only in the health and safety hazards
15 that are common with abandoned structures, but also in increased
16 unemployment, diminished incomes and residential decay and
17 abandonment as well, thus producing the classic case of blighted
18 areas.

19 e. By public inaction to counter economic decline when a com-
20 munity is endangered by blight but not yet wholly engulfed by it,
21 the opportunity to improve, redevelop and revitalize the com-
22 munity's economic base through private capital investment is lost,
23 and far greater expenditures of public funds become inevitable
24 as the process of deterioration and blight progresses.

25 f. The provisions of Article VIII, Section III of the State
26 Constitution, providing for limited tax abatements to combat blight
27 can be best utilized at the least economic cost in a preventive

28 manner in areas endangered by blight by their application to the
29 improvement, modernization and redevelopment of commercial and
30 industrial structures in such endangered municipalities.

1 2. As used in this act:

2 a. "Assessor" means the assessor, board of assessors or any
3 other official or body of a taxing district charged with the duty
4 of assessing real property for the purpose of general taxation.

5 b. "Commercial or industrial structure" means any structure
6 or part thereof on income-producing property of a commercial or
7 industrial nature, except structures or parts thereof designed for
8 the use and enjoyment of less than five families.

9 c. "Completion" means substantially ready for the use for which
10 it was intended.

11 d. "Improvement" means the improvement of a commercial or
12 industrial structure which does not change its size but shall include
13 the modernization, rehabilitation, renovation, alteration or repair
14 of such structure.

15 e. "Qualified municipality" means any municipality qualified
16 to adopt a delayed-assessment ordinance pursuant to section 3 of
17 P. L. 1975, c. 104 (C. 54:4-3.74).

1 3. In determining the value of real property for the purposes
2 of taxation, qualified municipalities may by general ordinance
3 provide that the assessor's full and true value of improvements
4 to a commercial or industrial structure more than 20 years old
5 shall be regarded as not increasing the value of such property
6 for a period of 5 years, notwithstanding that the value of the
7 commercial or industrial structure is increased thereby, provided
8 however that during said period the assessment on such structure
9 shall in no case, except that of damage through action of the
10 elements sufficient to warrant a reduction, be less than the assess-
11 ment existing thereon immediately prior to such improvements.

1 4. No exemption authorized pursuant to the provisions of this
2 act shall be granted or allowed except upon written application
3 therefor filed with and approved by the assessor of the taxing
4 district wherein the improvement is made. Every such application
5 shall be on a form prescribed by the Director of the Division of
6 Taxation, Department of the Treasury, and provided for the use
7 of claimants by the governing body of the municipality constituting
8 the taxing district, and shall be filed with the assessor within 30
9 days, including Saturdays and Sundays, following the completion
10 of the improvement. Every application for exemption of one or
11 more improvements which qualify as improvements within a

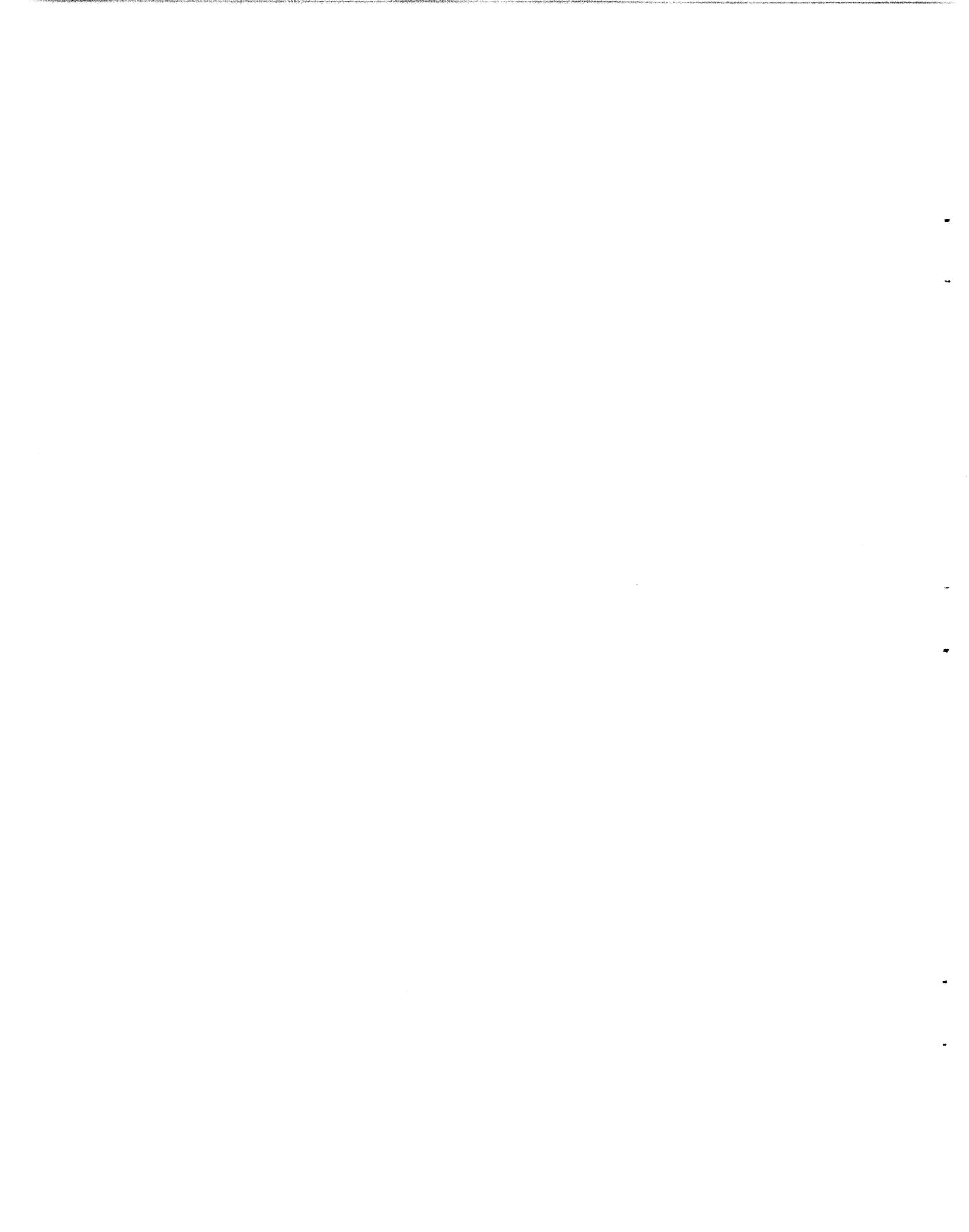
12 municipality adopting the provisions of this act, as defined by this
13 act, and which is filed within the time specified, shall be approved
14 and allowed by the assessor. The granting of any such exemption
15 shall be recorded and made a permanent part of the official tax
16 records of the taxing district which record shall contain a notice of
17 the termination date of the exemption and the consequences of
18 transfer of title.

1 5. This act shall take effect immediately.

STATEMENT

This bill would authorize those municipalities qualified to adopt a delayed-assessment ordinance under P. L. 1975, c. 104, to grant 5-year tax abatements on improvements to commercial and industrial properties. The determination to grant an abatement is left up to the municipality.

The need for such tax abatement is clearly expressed in section 1 of the bill.



SENATOR JOSEPH P. MERLINO (Chairman): This hearing will now come to order. It is being held by the New Jersey State Senate Committee on Revenue, Finance and Appropriations to hear testimony on two bills affecting farmland assessment, S-935 and S-1144, and on one bill providing for the deferred assessment on commercial and industrial properties, S-3349.

I guess I sound like a broken record at these hearings, but it's lonely up here with only one committee member. It is very disappointing that, at a hearing on two subjects which affect the State as much as these two, we have so few people here to offer criticism, encouragement, help, etc. I feel almost sure that if and when any one of these three bills is passed by the Legislature, I'll read in the press a number of accounts criticizing the bill and the Legislature. I guess that's life.

I would like to proceed now with testimony on S-3349. This is a bill providing for deferred assessment on commercial and industrial property. Our first witness will be Robert Woodford.

R O B E R T A. W O O D F O R D: Mr. Chairman, I am Robert A. Woodford of New Jersey Manufacturers Association. I am pleased to appear on behalf of the Association in support of S-3349, but not without some misgivings as to language and some misgivings as to the scope or potential impact of the bill. We have submitted a prepared statement for the record, and I'll just briefly summarize our comments. (See page 1 X.)

We feel, on the technical side of the bill, that the definition of "qualified municipality" should be spelled out rather than having reference made to another Act, particularly since the Act referred to has some problems as to constitutionality of enactment.

SENATOR MERLINO: That was taken care of by the last referendum, wasn't it?

MR. WOODFORD: The reference in the bill might also need some change. You are referring to a different section of the Constitution, and I presume that will have to be corrected by legislation. I think it is preferable, however, to have the language spelled out in definitions.

Secondly, the term "improvement," as in "the improvement of a" structure "which does not change its size," is, unfortunately, so restrictive that a change in facade, entry, or setback could be presumed to change the size of the structure. It would be preferable to indicate that the size would not change significantly or would not change by a certain percentage, perhaps 5 percent, something permitting a bit of leeway.

Finally, we question whether the improvement which is not placed on the assessment rolls for a period of five years would in any way affect county or school district taxes. While we assume there would be no impact, it should be spelled out in the legislation so there could be no question that this would affect the municipality levy and not the county and school district levies. If the reverse is intended, that should be spelled out.

The scope of this bill is really very narrow, but we feel it is likely to have a favorable impact, particularly in the commercial districts of the older cities. Unfortunately, that impact is not likely to extend to industrial facilities where a large part of the investment is in machinery and equipment. We have suffered in this State a low level of investment in the modernization and replacement of an obsolete industrial base, particularly in the cities where the plants are obsolete and the room is unavailable for expansion. This Act is not likely to be effective in reaching industry unless it is combined with other efforts of the State in the area of development.

We have included in the appendix to our statement a statement presented to the Governor's Economic Recovery Commission this past October. In that, we showed the types

of tax incentives that have been used for redevelopment in some of the major industrial States of the East. None of the provisions used in New York, Pennsylvania, Delaware, Rhode Island, and Massachusetts are available in New Jersey, and included in the appendix is that list of provisions that could be used to support bills such as 3349 in a broad-scale program of development, which really gets to the heart of the need for incentives for new capital, particularly in the industrial sector. Specifically, a sales tax exemption for machinery and equipment, an exemption from the State Business Personal Property Tax for the same items, and an investment credit for the purpose of stimulating additional investment in our manufacturing and research development bases would be useful and supportive of this legislation.

Essentially, that is the extent of our statement, Mr. Chairman.

SENATOR MERLINO: You mentioned that this would not affect industrial investments, and you mentioned several methods whereby this could be achieved. That would be effective on a statewide basis.

MR. WOODFORD: Yes.

SENATOR MERLINO: Can you suggest some measures that could be included in this bill or other bills to encourage industrial redevelopment, including capital investments, in the older cities?

MR. WOODFORD: I think the problem of the older cities has become far more complex than simply being a tax problem. Some expansion, perhaps, on the Fox-Lance approach, or some special development areas within the cities, which I know Commissioner Hoffman has been discussing, may well be the only approach.

SENATOR MERLINO: Do you feel the property tax abatement approach is the best approach to encourage business development or reinvestment activity?

MR. WOODFORD: I think it is one element that is needed. Obviously the outflow of businesses from the cities has had to do with the cities as habitats and as places in which people want to work. It has had to do with the quality of educational systems within the cities and the degree to which trained employees with good work habits and good educational backgrounds are available. Unfortunately, on this score, the cities have not been attractive. The question of space availability has been very important. Where you find a fairly obsolete structure, a multi-story industrial plant, generally you find it is hemmed in, and there is no room for building a modern plant in the vicinity. You certainly cannot close down operations to renovate for any long period of time.

So the kind of bill you are speaking of, an abatement provision for modernization, while it may have some impact on industry, will more likely have an impact on the commercial base of the cities. Speaking realistically, it may be that the commercial base of the cities is the one that should be concentrated on.

Industry needs fairly rapid transportation to and from plants, and it needs space. I am not so sure that we are going to rebuild an industrial base in the cities, but if it is done, it will have to be done in special areas that enjoy special tax privileges and incentives, not on a piecemeal basis, and it certainly cannot be limited to renovation of structures without any increase or decrease in size. Really, the problem of obsolescence that we face, which is our most serious problem in industry, requires modern plant facilities laid out in a manner that permits efficient operation. It requires the rapid replacement of equipment and machinery so that, again, efficiency is at its peak. We have an older industrial base, particularly in the cities, and both the location and the machinery tend to be obsolete. When these businesses look for new locations, they very carefully review the overall impact of costs in locations

available. We are losing on that score.

Maybe a combination of programs aimed at providing special incentives in the cities, together with a state development program--- I'm speaking here of tax incentives; I'm talking really about removing disincentives. We find ourselves surrounded by States that do not tax the purchase of production machinery, and they don't tax it as property, at either the state or local level, and in the case of New York, they have an investment credit similar to the federal investment credit which stimulates new investments. That is the kind of tool that has been used extensively in the Northeast in the older industrial States which have this problem of low reinvestment in industrial base which has cost so much employment.

We do approve of this bill, but we cannot say that it, standing alone, will have a substantial impact on industry.

SENATOR MERLINO: We're starting with this one. It took five years to pass a similar bill affecting residents in the older cities. Hopefully it will not take five years to improve this bill to the point where it will do some good.

Senator Dwyer, do you have any questions?

SENATOR DWYER: No, Mr. Chairman.

SENATOR MERLINO: Thank you, Mr. Woodford.
Peter Bearse.

P E T E R B E A R S E: My name is Peter Bearse, and I am Director of the Office of Economic Policy, which is the staff arm of the New Jersey Economic Policy Council, which was mandated in 1966 to advise the executive and legislative branches on economic policy. My main purpose in being here is to introduce an outside expert, Dr. Caprio, who has kindly consented to testify on this bill.

Dr. Caprio is an Associate Professor and Chairman of the Department of Urban Studies at Rutgers University in Newark. He has previously done work on studies related to residential decay in the inner suburbs of New Jersey and is currently doing some analysis of patterns of mortgage lending in Newark and Essex County.

Before passing on the microphone to Dr. Caprio, I want to make some general remarks which will indicate the Economic Policy Council's position with regard to property taxation in the central cities.

As far back as 1895, a noted tax authority, E. R. Seligman, summed up his findings on the property tax in a way that is compatible with the opinion of many contemporary economists. Seligman wrote, "Practically, the general property tax, as actually administered, is beyond all doubt one of the worst taxes in the civilized world. It puts a premium on dishonesty and debauches the public conscience. It reduces deception to a system and makes a science of knavery. It presses hardest on those least able to pay. It imposes double taxation on one man and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable that its retention can be explained only through ignorance or inertia. It is the cause of such crying injustice that its alteration or its abolition must become the battle cry of every statesman and reformer."

SENATOR MERLINO: Maybe you can supply that to the members of the New Jersey Senate. (Laughter)

MR. BEARSE: Remember, that was said as far back as 1895, and that was 80 years ago.

A look at the figures should make the issue clear. Property tax rates in Newark, Camden, Paterson, Passaic, Jersey City, Trenton, Hoboken, and Atlantic City are approximately twice as high as those in the State as a whole. Moreover, these cities'

tax rates are enormously high by any reasonable, absolute standards. Taken as a percentage of a property's annual rental, which is the proper basis on which to evaluate their economic effects, these urban tax rates amount to a sales tax on the use of real property ranging from about 50 percent to nearly 80 percent. In the case of an ordinary sales tax on a particular product, a tax rate only a fraction of this magnitude could effectively destroy an industry. We can hardly find it surprising that with these levels of taxes, new businesses in our inner cities do not find it easy to get started, and old businesses find it hard to remain. Furthermore, no suburb will be immune from the cancerous spread of urban problems into surrounding areas if present fiscal impediments undermining the public services continue.

I have made this brief statement representing the Council's position in order to establish some general perspective and to indicate that the Council is not unsympathetic to the intent of S-3349. However, I believe that Dr. Caprio, as an expert in this area, has several critical comments to make regarding the design of the legislation.

D R. R A P H A E L C A P R I O: I am pleased to be here today, and I would like to begin by expressing very qualified support for the proposed legislation. I am going to try to deal with this on a number of levels, and I will be as brief as possible.

We have to begin looking at the problem of how we fund the basic infrastructure necessary for a metropolitan society which, I think, New Jersey unquestionably is. To provide for high-density urbanism, we have managed to pack more people onto less land than any other State in the nation, and to that extent, we have been successful. However, I think the standard of living available to an increasing number of New Jerseyans is beginning to decrease significantly. We have to look at the question of how to fund services, and we have to ask the question, "Basically, what is a municipality?"

The proposed legislation attempts to deal with problems of commerce and industry, and a municipality is essentially a business. It attempts to provide a bundle of goods and services that we commonly refer to as "public goods" and "public services." The revenues that do this, in this State, are primarily dependent upon real estate taxation.

Because many of the older cities and suburbs, including much of the eastern Essex County area and probably 100 various municipalities in the State, were developed along rail lines, they have, characteristically, older housing patterns which house, for the most part, the low-income and under-income populations of this State. What this means, translated into very real terms, is that these municipalities are providing a public service in the provision of low-income housing and, at the same time, are bearing all the diseconomies that are concomitant with that population.

For example, the City of Newark, by providing public housing for 11,000 residents and low-income housing for another 250,000, is essentially serving a public good, and at the same time, many of the diseconomies are burdened by that tax rate.

We are essentially running a business, a public service business, the same way we did in 1900. It is the same as telling any of the large corporate structures in this State to organize and administer their goods and services the same way they did at the turn of the century. It's archaic.

When we talk about tax abatements on improvements or rehabilitation, let's be realistic. What are we really talking about? We are talking about the continued

viability of the structure. The continued viability of the structure, for the most part, is a function of the neighborhood in which it is located, the physical assets, etc. I think one of the major deficiencies of the proposed legislation is the fact that it does limit improvements to existing structures and does not allow for an increase in size.

Many of the kinds of things that one would hope to address in the legislation really should be taken care of on an ongoing basis and, for the most part, the way many municipal assessors operate, never really come before the assessor for reassessment. So, in projecting, one would speculate that for the most part, the legislation, as currently designed, probably would have minimal impact in terms of a significant upgrading of commercial or industrial properties in central cities or high-density inner suburbs.

The second thing we have to begin to look at is the question of what businesses are located in these areas. As noted by the previous speaker, the structures are often obsolete, and in many cases, they are occupied by marginal industries. Now, given the marginal increment, even with the high rate of taxation that we find in this State for real estate, if a business cannot afford the marginal increment, is it really a viable organization?

I do not think that delaying taxes on improvements to commercial or industrial structures is going to make very much difference in terms of improvement of quality or any other peripheral spin-off effects on neighborhood residential areas. I do not think it is going to make a significant impact in regenerating private capital in the central cities.

If I may, I would like to spend a minute or two on a number of things we are beginning to complete in and around the Newark area.

Currently, 13 percent of all real estate transactions in the City of Newark are takeovers by FHA as a result of default on mortgages, or takeovers by the City of Newark because of real estate default. One can point to real estate taxation as being one of the problems, but it is not the only problem. The fact is that there is a very low discretionary income level in the City of Newark. It has low-income and under-income populations. One can characterize this as being not unlike many of the older areas. What this means is this: Slowly the City of Newark - and I think most people are aware of this already - is becoming the largest landowner in the city. I think this is good, and one could suggest the following policy: If I were in the City of Newark and I knew one of the things I had to do to redevelop the central city was acquire large parcels of land and make them marketable for the kinds of business and industry that make sense economically - and I'm not talking about marginal business - I should really be fostering abandonment. What this effectively means is that one can, slowly and over a relatively short period of time, acquire a lot of land at a minimal input from the public purse. What it also means is a passive kind of relocation of low-income populations into the inner-suburb areas. I think that only when this occurs will large numbers of people in this State begin to recognize the fact that the problems of Newark are the problems of the State.

Newark has problems, but what do you do with a place like Belleville in 15 years? It doesn't have an airport, it doesn't have a port, and it doesn't have a university structure. It has housing and a commercial structure virtually identical to the City of Newark.

The problems in financing the infrastructure, the services, education, health, and welfare all must be borne by an increasingly lower-income population, in relative terms.

What I am suggesting is relatively bleak, but I think it reflects the realities of the State today. We have not increased the economic base in almost seven years, and we are operating in very serious diseconomies. I think the proposed legislation, for the most part, will have relatively little impact in redevelopment of the high-density areas. I am a political realist, and I know how many individuals have tried for tax reform in this State. Consequently, I do feel, perhaps with some revisions, that the proposed legislation may have a greater potential impact than it would have as currently designed.

For example, based on the testimony of a previous speaker, I think the qualification limiting rehabilitation and improvements to structures should be extended to include additions as well. The kind of business that is in fact seriously considering physical expansion is the kind of industry, I think, that the State really needs rather than the marginal ones. By including these possible situations, I think the potential impact will be increased.

SENATOR MERLINO: Thank you.

Senator Dwyer, do you have any questions?

SENATOR DWYER: Do you think, Dr. Caprio, that most of the old industrial buildings in Newark are really beyond salvation, with or without this type of program?

DR. CAPRIO: In general terms, I think they are. Plants today are looking for large amounts of land with adequate parking and space available for horizontal expansion which is much cheaper in terms of construction. They are also looking for locations that have better accessibility for the workers. We have begun to change, both in the State and nationally, in terms of the nature of employment. We are talking about a white-collar society. We're not talking about blue-collar workers by the millions the way we did 20 or 30 years ago. We're talking about the first-line manager and, characteristic in many of the office research kinds of facilities, we're also talking about the janitor, the secretary, etc.

I think existing industrial structures in the City of Newark may have some potential for redevelopment, but perhaps as a different type of structure. There have been a number of proposals for converting some of them into residential structures. The success of this really depends on whether the older, central cities and inner suburbs - and I stress that I am not limiting my comments to central cities - can attract a middle class. The City of Newark and the other large cities in the State do not have a middle class because of the geographic boundaries within which we operate. If this were Ohio and Newark were Cincinnati, Livingston would be in the municipality. It is not. We are talking about New Jersey, 1975. When you give consideration to turning around a place like Newark, you must also give consideration to a number of basic essentials: education, safety, and some way of providing housing relatively efficiently and cheaply. However, if you can in some way get significant industrial revitalization going, either because of land banking on the part of the city or a state policy, I think the residential development will follow. But you have to be realistic; you are talking about very obsolete structures, and there is no parking. Businesses are in business to make money. Why do it in Newark if you can do it somewhere else more cheaply?

SENATOR DWYER: Thank you.

SENATOR MERLINO: But realistically what industries will be attracted to the cities when there are just poor people there to work in the industries? I gathered from what you said that industry is now looking for a more affluent segment of the population.

DR. CAPRIO: Perhaps not more affluent, but trained in very specialized things. If we look at the kinds of things going on in New Jersey in terms of actual development, we see that many of the suburbs have tried to attract things like corporate headquarters, office research plants, and other characteristically white-collar employers. When we talk about expansion in industry, the blue-collar kinds of activities, increasingly we are talking about skilled employment. These are the kinds of things this State does not have and is not able to get simply because there is no effective way, number one, of retraining the blue-collar work force and we are losing, number two, to southern and western States which are making very good use of CETA money. We use it with all the platitudes as a way of providing a white-collar CCC and as a way of throwing some peanuts to the inner-city residents, while southern and western States are effectively using it very realistically as a way of attracting industry.

I'll use Georgia as an example. They have regionalized planning, and they effectively wine and dine corporate heads and say, "If you want to open up in our State and you need 3000 trained employees, we have something called "CETA," and we will guarantee that you will have those employees when you want to open." We don't have any realistic way of retraining the blue-collar work force that we have.

SENATOR MERLINO: The reason, therefore, that businesses leave this State - and I do think the exodus has started - is not necessarily because of taxes, is it?

DR. CAPRIO: The tax structure that we have is, I think, regressive, but I think we could put up with it if some of the other things were not also wrapped up in it. I point, for example, to Ironbound in Newark where there has been a lot of private redevelopment. What it boils down to is a commitment, for any number of reasons, ethnic identification, etc. I think business could put up with some of the diseconomies, but there are also other problems in terms of a trained labor force and the cost of housing. One of the biggest paradoxes we have to deal with is the fact that the white-collar individual who is being closed out because of bankruptcies in New York and New Jersey has the opportunity to relocate. He has his ear to the grapevine to learn about similar job opportunities in Chicago, Cleveland, San Francisco, etc. In many cases, because he is on a management level, the business will pay for him to travel for a job interview and will pay for relocation expenses, etc. That kind of thing does not exist for the blue-collar worker.

So essentially I am suggesting that if we do not deal with the problem of economic non-growth, we are increasingly going to lose the white-collar work force and keep a blue-collar work force that will be more and more obsolete in terms of its job skills.

SENATOR MERLINO: You stated at the outset that you give a very qualified endorsement of this bill. How can we improve this? We have to go one step at a time, and this bill was introduced with the idea of stimulating some interest throughout the State in the business and industrial communities. We would like to have your suggestions relative to it.

DR. CAPRIO: I mentioned before one of the first changes I would recommend, that is, inclusion of additions.

SENATOR MERLINO: I've made a note of that.

DR. CAPRIO: That, in and of itself, will probably double or triple the potential impact. I think the five-year tax abatement limit could perhaps be extended.

SENATOR MERLINO: By phasing it in after the five years?

DR. CAPRIO: Yes, over another five years or something like that. We are talking

about two different--- I hate to oversimplify it, but in a marginal business, what you will be doing is postponing the day when they will file for bankruptcy or just disappear. On the other hand, with a business that is growing or has some viability, what you will be doing is asking for everything at once. I think a greater inducement would be to give a tax abatement over five years and then phase it in for a five-year period after that. I think that is a more realistic way of handling it. It is difficult to speculate as to what the impact would be, but I think---

SENATOR MERLINO: It cannot hurt, can it?

DR. CAPRIO: No, it cannot hurt. I think it would make it far more attractive, and the impact would be far greater.

MR. BEARSE: I agree with that last point. My feeling, too, is that the cut-off point at which taxation of improvements would begin to take place is much too abrupt as stated in the bill. It should be phased in on a sliding scale.

In light of what Dr. Caprio said with regard to Newark becoming a very large landlord, you might also consider giving some priority to purchasers of abandoned buildings or buildings held by the city under tax liens if they intend to improve those buildings.

SENATOR MERLINO: I think most cities would be willing to give them to them.

MR. BEARSE: Some cities have the Urban Homesteading Program, but I don't think all of them do.

DR. CAPRIO: How could we deal with a situation such as this: Without naming names, what do you do when one of the significant employers in your municipality decides that it wants to expand, purchases land in one of New Jersey's suburbs, builds a new corporate structure, and, realizing that there is no market for the office building located in Newark, decides that one nice, easy, and painless way of getting a deferred sale price is to default on taxes? What you are effectively getting is a situation where a company is relocating, taking away a number of jobs from an area, moving to another suburb, taking the tax advantages to that suburb, and telling the central city, "You can take your building and---" If one could find a way of dealing with that kind of situation, I think it would be useful.

SENATOR MERLINO: There was a suggestion that that should be made a liability, and rather than have it be just a lien against the building, it should be subject to court action and judgment against the owner for collection of delinquent real estate taxes. But I don't think that has ever gotten beyond the talking stage, and I'm sure it would cause some concern within the State.

DR. CAPRIO: Some discussion also.

MR. BEARSE: I have a couple of questions; one was raised by Dr. Caprio. Will this bill permit tax abatements for improvements in what are now commercial or industrial structures but which investors may want to convert to multi-family dwellings?

SENATOR MERLINO: I don't know that this bill addresses itself to that, but in the urban centers, those improvements would qualify for many other things. This would be a Fox-Lance proposal perhaps. I am sure that there are other incentives to create residential units, but I don't think this bill addresses itself to that question.

MR. BEARSE: Well, the bill specifies "income producing properties," so if they were converted to apartment buildings, I assume they would be covered.

I also wondered about the exclusion of residential properties. It's hard to say, but depending on the kind of budget constraint a municipality is under and the way assessments on improvements are handled, etc., it is possible that the abatements on improvements of commercial and industrial structures could be reflected in somewhat

more pressure on the tax rate for residential properties, which would be an undesirable effect.

When you talk about a "qualified municipality," instead of referring to the statute, you might want to include the criterion that the municipality have a neighborhood preservation program of the type that is being run by DCA in many communities. This kind of Act would enhance a neighborhood preservation program, and if the two things were going on simultaneously, any pressure on residential ratables would be somewhat eased.

SENATOR MERLINO: Mr. Bearse, I haven't heard that for some time. With the residential abatement that was just enacted into law, that was the issue that was raised many times. As a matter of fact, it was the subject of some rather heated discussions between the bill's sponsor and the State Department of Taxation in that the bill's fiscal note indicated a tax loss of millions of dollars. Perhaps I am oversimplifying it when I say this: How can you lose something you never had? There is no tax loss and there is no shifting of burden. When you give a tax abatement on improvement of a property, it's a tax you never collected before. You are merely deferring any additional tax until after a certain period of time, so there really is no loss of tax, and there is no shifting of the burden to someone else. The municipality never collected the tax. It took many years and many long and sometimes heated discussions to get a fiscal note which was realistic because the State used to say that the municipalities would lose millions of dollars a year by giving a tax abatement in this area. As I said, maybe I am oversimplifying it, but I cannot understand how you can lose something you never had.

DR. CAPRIO: I generally agree with the use of a tax abatement. The question usually asked, I think, is this: What would the municipality get if a new apartment building, for example, were taxed at its full rate? But let's be realistic; if it's the only game in town, you have no option.

SENATOR MERLINO: Thank you very much, gentlemen.

David Davies.

While we are waiting for Mr. Davies to make his way to the microphone, I would like to announce that if people are here to testify and have not as yet made that known to Mr. Zuzzio, they should notify him immediately so their names can be placed on the agenda.

Mr. Davies.

D A V I D D A V I E S: Thank you, Senator Merlino. My name is David Davies, and I am Director of the Division of Housing and Urban Renewal in the Department of Community Affairs. I am accompanied by Sol Metzger, who is an attorney in the department.

I did not prepare a statement for presentation today; I came more to listen than to talk, but I appreciate the opportunity to say just a word or two.

In regard to 3349, we suggest that some consideration be given to a couple of places where changes or clarifications perhaps should be made.

In 2. b. the bill speaks of "commercial or industrial structures" and goes on to say ". . . except structures or parts thereof designed for the use and enjoyment of less than five families." That introduces the idea of residential structures containing five or fewer families, and perhaps that should be clarified in some way. There may be a mixing of apples and oranges there that should be made clear.

With respect to the definition of "qualified municipality," I endorse the suggestion that has already been made that that be very clearly spelled out in

this piece of legislation.

Generally, with respect to your idea that we are taking one step at a time, we endorse that fully. But as you pointed out earlier, this is one step into an arena the size of which has changed drastically as a result of the last election. We now have a constitutional change that is going to encourage many new proposals for changing the assessment of property and the taxation of property. I think it has to be seen in that context. I suggest to you that perhaps the Legislature and the administration should begin thinking about some kind of joint group to think through the question of the potential inherent in the change in the Constitution that was voted early this month and where we should go with it. I say that because, given the undermining nature of our reliance upon this kind of tax, the real estate tax, as the primary source of our public funds in this State, there is going to be a lot of pressure to try to do something in bits and pieces about the tax structure as a result of the constitutional change. If we are not going to have the courage to address the issue of an income tax, and if we are not going to change our tax structure sufficiently to meet our needs, then what we are going to do is buy the constitutional change with this as the second step - the legislation that you introduced before with respect to tax deferments on residential properties, which we supported and think is going to be of some substance, was the first step - in a series of events that will take many, many steps.

I suggest again that we had better get our heads together and begin thinking about what we are going to do about property taxes in the State as a result of the new freedom we have to make some adjustments.

SENATOR MERLINO: Not too many people saw it that way.

Thank you very much for your testimony.

Is there anyone else who wishes to testify on this bill? Yes, sir, please identify yourself for the record.

S T E D M A N A A R O N: Good morning, my name is Stedman Aaron, and I work with the Urban Loan Authority, which is a state agency working out of the Department of Community Affairs.

I just wish to be brief with reference to all that has gone before. To preface my observations, I wish to draw your attention to the Governor's first annual message to the Legislature, delivered on the 14th of January. On page 12, subheaded "Cities," the Governor stated, " Any effort to improve the quality of life in New Jersey and protect our resources must begin with the standards of service in our cities. If we, the Administration and the Legislature, fail in our promise to those who live in urban centers, we will have broken our pledge to make the future as just as it can be. We know, too, the limitations of urban programs without adequate funds. But even without great sums which we will not have available in 1975, there is much we can do."

What can be done? I think that for the cities to be saved someone must have a responsibility. It will have to be done either by the government, businesses, or individuals. In these areas, who will assume that responsibility? Will businesses assume that responsibility? It is obvious that they wouldn't, because they are leaving. Will the individuals assume this responsibility? In most cases they are willing, but the sources of the help they need aren't available. So, from where will the help come? It will have to come from the governmental agencies, the Legislature. I think that this is one attempt in keeping with the statement the Governor has made to provide some impetus, some incentive to get the businesses to remain within the framework of these municipalities and make these neighborhoods continuing and liveable entities.

I just have some comments on the mechanics of the bill as such. I think the first speaker made some very valuable contributions. After all, when you talk about businesses, businesses function primarily for profit. That is the only reason businesses are where they are, for profits. There must be a market. There must be management, and there must be money, and there must be that margin of profit to keep businesses. When their margin of profit begins to erode, they are going to think of alternatives, and one alternative is, if the location within which they are presently is not attractive, they are going to get out. There is one reason why businesses continue to get out of these neighborhoods, because of increasing taxes. They look to other areas where they are more confident that their business will be made viable, and one is attractive taxes. If you can get a tax abatement or if you can get lower taxes, or any other such attraction, they are going to go. What will keep businesses there? I think the first speaker addressed himself very, very effectively to that. He suggested that there must be some incentive to provide some form of attractive devices, such as depreciation on machinery. This is necessary to keep them there.

I would think that this bill would be very, very attractive, effective and worthwhile, if that can be incorporated in it. Now, in reading through the bill, reference is made to small businesses, in paragraph C, line 9. I think that since in my work I meet individuals in small businesses on a daily basis, I think it should be defined. What would you consider small business? Would it be the neighborhood type of operation or would it be an operation that grossed sales of maybe \$100,000 or \$50,000 or \$500,000? There should be some definition. I would suggest that the term small business be left as broad as possible, for the simple reason that if you go into many neighborhoods, the Mom and Pop type of operation is going. They are going by virtue of the fact that they have problems within the cities. And something should be done to keep them there.

Recently I was in Burlington, which is just a couple of miles from here, and if you go down the main strip you will note that there is continuing deterioration. There is the disappearance of small business. What can the municipality do to keep these businesses there? This would be one attractive measure of keeping them within the city. I think Trenton is no different than any other city.

Other speakers did dwell on the question of improvement. I think Dr. Caprio dealt at length with the improvement meaning no addition. Well, if you are dealing with commercial and industrial buildings, you have to speak in terms of expansion. When you expand, there is always the question of how large you can go. Some consideration should be given to including expansion within this section of the bill.

One other question I have is, how does tax abatement work? Who would set up this criteria? Would this bill include that phase of the criteria, or would this be left to the municipalities concerned? I think this should be a prime consideration in making it as attractive as possible.

Again, Dr. Caprio dealt with the abuses. It has to be worded, and I think that the law makers will not ignore this, in such a way to avoid abuses. To make sure there are no abuses, there should be many definitive parts of it.

In short, I think that with the other contributions from speakers who have gone before me, and other contributors, a new bill encompassing suggestions from the floor can greatly contribute to and promote the development of businesses, commercial, industrial and small businesses within the State, and in some aspect, stem the blight. Sometimes I think the bill is a bit optimistic and euphemistic when they say there is a downward transition. There is an incursion. In areas like Paterson and Newark there are deep pockets of depression within these areas, and there is no semblance of hope. I think Dr. Caprio dealt at length with this, but there is a need for the encouragement of and maintenance of businesses, small, commercial and industrial, within the inner cities to preserve some semblance of the urban areas, because these are businesses that provide employment. They do provide a tax base. They do provide a service, and they are needed. If the areas are to survive as neighborhoods singularly, and living entities in general, all possible means must be taken to retain them. I thank you.

SENATOR MERLINO: One of the things that is disturbing to some Legislators is the failure of some of the ventures in which the Urban Loan Authority played a part in setting up the ventures and helping them. In your experience, would you attribute most failures to the burden of taxes within the city?

MR. AARON: No, Senator Merlino. That plays very little part. What we do when we consider a loan is we attempt to conduct an evaluation, and we conduct it from the point of view of whether there is a market, and whether the business can finance the debt of a loan, and all the components that make a business viable. The one criteria that we cannot really evaluate is the individual, and that comes under management. Ninety percent of all businesses fail because of inefficient management, and this is something that we discover after the fact.

SENATOR MERLINO: Thank you. Senator Dwyer, do you have any questions?

SENATOR DWYER: No questions.

SENATOR MERLINO: Thank you. Is there anyone else here who wishes to contribute to this hearing on Senate 3349? We will go now to the farmland assessment, and I think we will take both the bills together if we may, for those who will be up here to offer some testimony. Dr. West.

A R T H U R H. W E S T: Mr. Chairman, Members of the Committee, Ladies and Gentlemen,

My name is Arthur H. West, and I am here today speaking in behalf of the New Jersey Farm Bureau, an organization of which I am President, consisting of over 4300 farm families, all across New Jersey. I am here today to register our opposition to Senate Bill 1144.

The Farmland Assessment law, as it presently stands, has been a record of outstanding success. It has reduced the rate of loss of farmland in New Jersey considerably. It has saved open spaces.

There are those who feel that the Farmland Assessment Act is giving farm property owners an exemption not rightfully theirs. We refute this contention, because we know that New Jersey farmland owners are still paying the highest tax per acre of any state in the nation, even with the Farmland Assessment Act. In 1974, the average acre of farmland in New Jersey paid a tax of \$24.60, the highest in the nation.

Senate bill 1144, attempts to do many things which are, in our opinion, not proper, because it is trying to change by legislation, that which is already written into the New Jersey Constitution, in the Farmland Assessment amendment back in 1964. I will attempt to enumerate these areas that I have concerns about, as follows:

1. This bill would eliminate the 5 acre area called for in the Constitutional amendment. (Article VIII, Section 1, (b)). We do not believe the Legislature has authority to make legislative changes to the State Constitution without a referendum of the citizens of the state of New Jersey.

2. It would eliminate the present language in the bill that states if there is anticipated yearly gross sales of at least \$500.00, within a reasonable period of time, that a property would be eligible for farmland assessment. With the elimination of this one clause, in the bill, you would take away farmland assessment from the hundreds of nursery farms, and nearly all of the sod farms, in the state. You would take away the farmland assessment from the fruit farms where new orchards are growing, where it takes from 3 to 5 years to bring an orchard into bearing, (here is no income), and yet this is true agriculture at its best. You would eliminate from the Farmland Assessment Act new cranberry bogs, new blueberry fields, yes, and even new strawberry fields, since it takes 2 years to bring a strawberry field into production. With this elimination, you would take away the farmland assessment from a substantial percentage of true agricultural **land** in New Jersey. We, therefore, oppose this deletion.

3. The bill would also eliminate the lower gross earnings in the case of woodlands or wetlands, and this again, would cause severe hardship on many property owners. It would, without question, force many of them to sell their farms, because it would be utterly impossible to pay taxes on the market value of such acreage of woodland that have very little potential income earning capacity.

4. We have to oppose the section which would require 100 acres or more in order to qualify under this Act, woodlands or wetlands, but would not allow for more than 20 percent of the land, woodlands or wetlands, to qualify. This again, would eliminate literally hundreds of farms in New Jersey from getting the full benefit of the Farmland Assessment Act, and would make it a most uneconomical situation. It would force municipalities to take over hundreds of thousand of acres of such land, because it is literally impossible to pay high taxes on lands that have very low income producing capacity.

5. This bill would change the two-year rollback period to five years, which again, I don't think can be done by the Legislature, because the two-year rollback is written into the Constitutional amendment. (Article VIII, Section 1 (b).) I don't believe the Legislature has the authority to change a Constitutional amendment, without the support of a referendum from the people.

6. This bill, without question, would destroy a successful New Jersey farmland assessment law, which has been the model for 37 additional states to follow since its enactment here in New Jersey. It would destroy agriculture in New Jersey forever. It would create economic disaster for those persons who own the land in New Jersey.

We feel this is an extremely bad bill, and urge this Committee to withhold this bill from being released from your Committee.

I thank you for the opportunity to present the position of the New Jersey Farm Bureau.

SENATOR MERLINO: How about the other bill?

MR. WEST: I did not make any comments on the other bill, and my reason for not making any comment, sir, is because I think Senator Zane's bill liberalizes the Farmland Assessment Law. Our membership does not feel that it is necessary to liberalize it further than it is. I'm sure Senator Zane must have had some individual situation as the reason he put it in, but in our opinion, they are not widespread, and we do not see the need for liberalizing it further. That is the reason I did not make any comment.

We would not be opposed to it, but likewise we are not overly supportive, because we think it opens up a new kettle of fish that need not be opened.

SENATOR MERLINO: Any questions? One question that was raised at one of the Committee meetings -- we have discussed these bills previously in Committee -- was the \$500 threshold that is over ten years old. Is that still realistic? The price

of everything has increased. Is there any reason why the \$500 threshold should remain the same?

MR. WEST: Well, it is a criteria, and that's all it is, and that is all it is intended to be. It depends on the type of the farming operation. It is most unrealistic in some instances, and it is very realistic in others.

We only put that as a constitutional change originally to indicate that it was a viable farm operation. It really is not very meaningful whether that were \$500 or \$700 or \$300. At least it has to be a viable farm operation - and on the first five acres it is \$500 plus \$5 additional for every acre over five, which was changed three or four years ago. If there is to be any change at all, it might be this area that you would consider changing not the \$500 initial fee. If the situation demands, you might change the rate per acre.

If I might add, and I don't have this in my statement, if the concern for introducing this bill by Senator Fay was to avoid speculative interests taking advantage of the Farmland Assessment Law, which I presume probably is his reasoning, we did have introduced in the Assembly this past session by Assemblyman Perskie, Assembly Bill 1842, which we feel is a practical way of resolving some of the - perhaps - unfair speculative interests. It is a ten-year conveyance tax. The bill was released from Committee with some amendments that we cannot support, and that is the reason that we have not moved for the passage of this in the Assembly.

Massachusetts has written this into their Farmland Assessment Law which went into effect this past year. Many other states are looking at it now hoping to incorporate it into their law. If this is a concern of your Committee, I would appreciate your taking a look at Assembly Bill 1842. We think that is a practical approach to resolving some of these concerns that are in all probability real.

SENATOR MERLINO: That is Assembly Bill 1842?

MR. WEST: Yes.

SENATOR MERLINO: That wouldn't go hand in hand with Assemblyman Perskie's 1875, would it?

MR. WEST: No.

SENATOR MERLINO: That is his income tax bill.

MR. WEST: No, that does not go in with his income tax bill, and we did not oppose or favor that one either.

SENATOR MERLINO: Thank you very much. Mr. Kenny.

W I L L I A M E. K E N N Y: Senator Merlino, Senator Dwyer,

I AM WILLIAM E. KENNY, ASSISTANT SECRETARY OF AGRICULTURE,

NEW JERSEY DEPARTMENT OF AGRICULTURE, SPEAKING FOR SECRETARY

PHILLIP ALAMPI. MAY I FIRST EXPRESS APPRECIATION FOR THIS

OPPORTUNITY TO PARTICIPATE IN YOUR DELIBERATIONS CONCERNING

AMENDMENTS TO THE FARMLAND ASSESSMENT ACT. BE ASSURED THE

DEPARTMENT OF AGRICULTURE WILL ATTEMPT TO PROVIDE WHATEVER

INFORMATION YOU DEEM NECESSARY IN YOUR DELIBERATIONS ON THIS

ISSUE.

IN DEFERENCE TO TIME, MY COMMENTS WILL BE LIMITED TO (1) A BRIEF REVIEW OF THOSE FACTORS THAT LED TO ADOPTION OF THE FARMLAND ASSESSMENT ACT OF 1964, AND (2) THE DEPARTMENT'S ROLE IN THE ADMINISTRATION OF THE ACT.

WHY FARMLAND ASSESSMENT

DURING THE 1950's AND EARLY 1960's, URBANIZATION IMPACTED UPON THE GARDEN STATE. VAST AREAS OF OPEN LAND WERE NEEDED TO ACCOMMODATE INDUSTRIAL, COMMERCIAL, AND RESIDENTIAL DEVELOPMENT. SINCE FARMS WERE USUALLY LARGE TRACTS OF CLEARED LAND, THOSE SITUATED ON THE FRINGE OF URBAN AREAS BECAME INITIAL TARGETS FOR DEVELOPMENT. HOWEVER, LEAP-FROG GROWTH PATTERNS EVENTUALLY OCCURRED SO THAT MOST FARMLAND WAS CONSIDERED PRIME FOR ANY DEVELOPMENT ACTIVITY.

THAT DEVELOPMENT WAS ACCOMPANIED BY DEMANDS FOR NEW GOVERNMENT SERVICES TO BE FINANCED BY REAL ESTATE TAXES. SINCE ALL REAL ESTATE TAXES WERE AD VALOREM, THOSE CONTINUING FARM OPERATIONS WERE CONFRONTED WITH SPIRALING TAXES AS LAND VALUES APPRECIATED WITH DEVELOPMENT PRESSURES. ULTIMATELY, NEW JERSEY FARMERS WERE PAYING THE HIGHEST PROPERTY TAX IN THE NATION.

SINCE FARM PRODUCTS ARE SOLD IN COMPETITION WITH ALL PRODUCTION AREAS, THE REAL ESTATE TAX WAS A DISPROPORTIONATE COST FACTOR FOR NEW JERSEY PRODUCERS. FINDING IT EXTREMELY DIFFICULT TO COMPETE WITH OTHER PRODUCTION AREAS ON THE ONE HAND WHILE SUBJECT TO AN ATTRACTIVE OFFER FOR THE FARM PROPERTY ON THE OTHER, MANY FARMERS

HAD LITTLE CHOICE BUT TO TERMINATE OPERATIONS. AS FARM TAXES ROSE FASTER THAN FARM INCOME, FARMLAND SHIFTED TO OTHER USES AT THE RATE OF 50-60 THOUSAND ACRES ANNUALLY. IN MANY INSTANCES, AGRICULTURAL LAND WAS PREMATURELY SET ASIDE FOR OTHER USES ALTHOUGH THERE WAS NO IMMEDIATE NEED FOR SUCH USE.

WITH THE RAPID SHIFT OF LAND USE, THERE WAS CONCERN THAT NEW JERSEY WOULD BECOME THE FIRST ASPHALT STATE. TO ABATE THE LOSS OF FARMLAND, THE 1962 LEGISLATURE CALLED FOR FARMLAND TO BE ASSESSED ON THE BASIS OF ITS PRODUCTIVITY IN AGRICULTURE RATHER THAN ITS VALUE FOR OTHER USE. HOWEVER, THAT LEGISLATION WAS DECLARED UNCONSTITUTIONAL SINCE THE STATE CONSTITUTION REQUIRED THAT ALL REAL PROPERTY BE ASSESSED ACCORDING TO THE SAME STANDARD OF VALUE REGARDLESS OF OWNERSHIP.

FOLLOWING THAT DECISION, A CONSTITUTIONAL AMENDMENT WAS SUBMITTED TO THE ELECTORATE IN 1963, APPROVED BY A VOTE MARGIN OF TWO AND ONE HALF TO ONE, AND THE FARMLAND ASSESSMENT ACT OF 1964 WAS SUBSEQUENTLY ADOPTED. SINCE 1964, THE ANNUAL SHIFT OF FARMLAND TO OTHER USES HAS AVERAGED ^{SOME} 20,000 ACRES. IT SHOULD ALSO BE NOTED THAT DURING THIS PERIOD FARM REAL ESTATE TAXES INCREASED MORE THAN 100% (15.1 TO 33.1 MILLION) WHILE QUALIFIED LAND TAXES PER ACRE INCREASED ONLY 21%.

ADMINISTRATION

THE FARMLAND ASSESSMENT ACT CITES THE ASSESSED VALUE OF QUALIFIED LANDS SHALL BE BASED UPON THOSE INDICIA OF VALUE WHICH SUCH LANDS

HAVE FOR AGRICULTURAL OR HORTICULTURAL USE. THE ACT ALSO ESTABLISHED THE STATE FARMLAND EVALUATION ADVISORY COMMITTEE WHICH IS RESPONSIBLE FOR ANNUALLY DETERMINING AND PUBLISHING A RANGE OF FAIR VALUES FOR EACH OF SEVERAL CLASSIFICATIONS OF LAND IN AGRICULTURAL AND HORTICULTURAL USE. THIS INDICIA IS A REFERENCE FOR TAX ASSESSORS IN DETERMINING ASSESSED VALUATIONS -- EXHIBIT #1. (Appendix, page 11X)

IN BRIEF, THE COMMITTEE CALCULATES PRODUCTIVITY VALUE OF THE LAND BASED UPON SOIL TYPE, USE, LOCATION, AND AGRICULTURAL INCOME EXPERIENCE.

SUMMARY

AGRICULTURE IN AN URBAN ENVIRONMENT IS SUBJECT TO MANY OPERATING PROBLEMS. AGRICULTURE IN AN URBAN ENVIRONMENT WHICH EMPHASIZES PROPERTY TAXES IS SUBJECT TO INTENSE ECONOMIC PRESSURES. IN THE ABSENCE OF A PUBLIC POLICY THAT RECOGNIZES THE OVERALL ECONOMIC AND ENVIRONMENTAL SIGNIFICANCE OF AGRICULTURE, IT IS DOUBTFUL THAT A CONSIDERABLE PORTION OF THE FARM INDUSTRY CAN SURVIVE. PROPERTY TAXES ARE A MOST SIGNIFICANT COST ITEM TO FARMERS.

PRIOR TO THE FARMLAND ASSESSMENT ACT, NEW JERSEY WAS LOSING 3 FARMS EACH DAY. THE CURRENT LOSS IS ONE FARM EVERY OTHER DAY. AT THIS RATE, WE COULD LOSE ALL OUR FARMS IN 43 YEARS. ANY CHANGE IN THE PROPERTY TAX STRUCTURE CAN HAVE VERY SERIOUS REPERCUSSIONS TO THE STATE'S AGRICULTURAL ECONOMY AND TO THE QUALITY OF LIFE IN NEW JERSEY. THIS IS AN ISSUE THAT DEMANDS THOUGHTFUL CONSIDERATION.

SENATOR MERLINO: Mr. Kenny, I don't want to put you on the spot, but has your office together with the Secretary made any evaluation of S-1144 and S-935?

MR. KENNY: Yes, we have. I think as Mr. West pointed out, unfortunately there are probably abuses of the Farmland Assessment Law. And to retain agriculture in the long-run, we don't feel that Farmland Assessment is the solution. That is why the blueprint proposal has been offered.

However, in the interim, to correct these abuses we believe, as Mr. West recommended, that the conveyance tax is a preferred measure to prevent speculation. In the particular case of S-1144, Mr. West cited some of the problems that will arise with it. I don't think he referred to the point that -- even an individual growing ornamentals in the backyard might qualify for farmland assessment, because we are striking out -- at least, S-1144 would strike out the five acre minimum. With ornamentals, it is conceivable that many people could produce ornamentals and meet the income requirement. This could be a real problem.

SENATOR MERLINO: Thank you. Mr. Haines.

M A R R I O T T G. H A I N E S: I am Tax Assessor for the City of Vineland. I was

a member of the Advisory Committee to Governor Hughes regarding the Farmland Assessment Amendment.

Governor Cahill appointed me a member of the New Jersey Tax Policy Committee. During the public hearings we held up and down this state, the Farmland Assessment Act was subjected to more criticism than any other law.

I have also served on many farmland assessment committees for the assessors, County Tax Board Commissioners and at present am serving on the Advisory Farmland Committee to the Director of the Division of Taxation.

My first comment concerns Senate Bill No. 1144.

On line 3, Section 5, you propose to strike out "5 acres in area". Coming from a taxing district where we have hundreds of small farms, removing this minimum area requirement would not serve any useful purpose. It certainly would not support the original purpose of this act, namely, the preservation of open space.

On the other hand, there are areas where the removal of this limitation will lead to a great erosion of the local tax base. For example: In those sections of our state, where land values are high, it will be relatively easy to meet the present minimum gross sales requirement and enjoy a very substantial tax deduction.

This leads to my next point. While you are suggesting that "an average of \$10.00 per acre for each acre over 5 acres", you are retaining the same \$500. which was in the original law, when it went into effect in 1965. It is respectfully suggested that some thought should be given to increasing this figure to a level commensurate with the current level of sales as compared to 1965. It is recommended that this figure be increased to \$1,000.

You propose to amend section 8 of the Farmland Act to increase the number of years subject to rollback from 2 to 5 tax years. I support this change. It should have been made before this.

My next comment concerns Senate Bill No. 935, the purpose of which is to broaden the scope of the Farmland Assessment Act to further promote the preservation of woodlands and wetlands.

The treatment of woodlands and wetlands under the provisions of the Farmland Assessment Act, is very controversial to say the least. This is the area that caused the most criticism referred to above. It is also a problem to the assessor to administer, particularly, when our efforts are exposed to the courts through appeals. Time after time, the various levels of appeal agencies have applied a very liberal interpretation to the act, which has resulted in rather substantial losses of tax ratables.

In my opinion, to apply the provisions of the Farmland Assessment Act to woodlands and wetlands, as suggested by S935, would further compound the issue, because the wetlands legislation has already depressed the values to the point where the benefits of the Farmland Act are not necessary

Another point to be kept in mind is, that every time a Farmland Assessment application is approved, a shift of the tax burden occurs. It results in the tax relief granted under the Farmland Assessment being shifted to the remaining property owners. In most of our taxing districts, it is the residential property owner who makes up the difference.

In my taxing district (the City of Vineland) for 1975, the shift amounted to over \$312,000.

While the Farmland Assessment Act has been successful in retaining many acres in open space in New Jersey these past ten years, nevertheless, we are still losing an average of 50 acres per day to other uses. The provision of S935, in my opinion, will not improve the situation. It will only increase the cost to the remaining property owners.

You are urged to oppose S935. Thank you.

SENATOR MERLINO: Mr. Haines, to what extent does an assessor consider those land values in granting the Farmland Assessment?

MR. HAINES: I adhere to them as strongly as possible, as recommended by the advisory committee.

SENATOR MERLINO: Thank you, Mr. Haines. Our next witness is Mr. Grayson.
C H A R L E S W. G R A Y S O N: Good morning, Senator Merlino. I am Charles W. Grayson of Belle Mead, New Jersey. I speak as Tax Assessor of Montgomery Township, Somerset County, presently serving my ninth year in said office. I am a member of the Association of Municipal Assessors of New Jersey, and I am Chairman of the Farmland Committee of the Association of Municipal Assessors of New Jersey, and I also speak on its behalf. I might add here - and this is not in my written statement -

I presently also serve as Chairman of the Advisory Farmland Committee, through Sidney Glaser, Director of the Division of Taxation. However, I am not speaking on behalf of that Committee or of the Director.

I wish to read and submit the attached statements relative to Senate Bills S-1144 and S-935.

The views expressed are based on the prefaces that:

1. It is in the best interest of all the citizens of New Jersey that there should be retained and preserved an agriculture industry and agricultural open space in this State.
2. A majority of the voters in New Jersey expressed this view by approving enactment of the Farmland Assessment Act of 1964.
3. It must be made economically feasible for farmers to survive in their occupation if there is to be an agriculture industry in this State.
4. Retention of agricultural open space is of vital importance in the current concern for ecology, environmental protection and preservation of open space for the benefit of the present and future generation of people in our State.
5. In considering proposed changes to the Farmland Assessment Act, the truth must be determined and considered in all respects.
6. Any change in the Farmland Assessment Act should be consistent with the foregoing items 1 through 5, and with the will of the people of this State.

S-1144

Line 3 - Leave 5 acre minimum as is. A home garden with a good strawberry patch or an asparagus bed of an acre or two could produce the minimum dollar sales requirement. Is it the intent to qualify all home gardens under the Act? Is it the intent to qualify vacant building lots of 1 acre or less for reduced assessments if they meet the dollar gross sales and other requirements, which is possible. There seems to have been little, if any, complaint so far on use of the 5 acre minimum standard. Why change it?

Lines 5 & 6 - Do not delete soil conservation payments. Soil conservation programs build up the soil, increase its productivity, and conserve its value as a natural resource of benefit to all. Such payments are an incentive for farmers to improve the soil with resulting increased food production, increased yields and income, and an incentive to continue farming profitably rather than at a loss, then quit and cease to devote the land to agriculture use, contrary to the intent of the Act. Such programs are sponsored by the Federal Government, are legitimate under Federal Law and farmers are urged to participate in an effort to conserve our national agricultural resources to provide food for future generations. The intent of the Act is to keep farmers farming and not to put them out of business.

Lines 7 & 8 - The increase of average gross sales from \$5 to \$10 will eliminate from qualification a large number of legitimate farms which have a small percentage of income producing acres. The fact must be recognized that not all acres of a farm are necessarily fit for farming, may be marginal, and have been so for generations. The present day increase in farm product sales values would help offset this, but many farms would be forced to change their type of operation in an effort to meet the new dollar sales requirement, running into new types of problems such as financial, labor and equipment making it economically unfeasible to continue in operation.

Lines 9-12 - The anticipated gross income clause must not be deleted. Many farm products and animals take more than 1 year to reach maturity and a saleable income-producing age. Deleting this clause would subject a large number of farms to high taxes which could not be met on farm income and would force the sale of the land to pay the tax.

Lines 13 & 18 - Leave 3 year roll-back as is. Increasing to 6 years would be a severe penalty and would eliminate much of the incentive and offset much of the gain that would result from the reduced taxes. Farmers would be discouraged from trying to hold on and continue farming. They will have to pay the increased tax indirectly, if not directly. This change will require a constitutional amendment as the people voted for a 3 year roll-back. A referendum could revoke the Act and wreak havoc with New Jersey agriculture.

Lines 29-34 - The 20% clause on woodland and wetland would force the sale of the land in excess of the 20%, contrary to the intent of the Act. Destruction of trees would result which is contrary to environmental protection for the benefit of all. All woodland in a farm should qualify, if it is to be retained as open space, particularly with trees. The farm could not support the tax on the excess woodland or wetland.

The non-qualifying woodland or wetland acres would be subject to 6 years roll-back tax under lines 6 & 7 of the proposed amendment to Section 8 of P. L. 1964, c. 48 (page 2) which state "including farmland which does not qualify under the provisions of this Act." A farm can be forced into bankruptcy when faced with such a tax as it does not have the income to support it.

Lines 35-42 - "Wetlands" and "woodlands" must be more clearly defined. Just what forest products are included under woodland? Under woodlands we have Christmas-type trees which may mature in 6 or 7 years, and then you can also have your hardwoods which get into 50 years plus. So this is something that ought to be clarified particularly for the assessor's benefit. We assessors are the ones who have to administer this law if this bill became enacted. Wetlands which cannot produce anything could be subject to prohibitive high tax.

Line 41 - What is the definition of "reasonably contributing?" This must be defined for the assessor's benefit. That can be interpreted in 100 different ways

Lines 7 & 8, Page 1 - This I think is probably just an error, but I think it should be clarified further. It should read, "Plus an average of \$10 per acre for each acre over 5 acres," and add "of the total qualified acres." In other words, you could take a 5 acre homesite and start from there, and this \$10 applies to the qualified land. I mean, this is something that should be clarified whichever way it is intended to be. As proposed, the clause is indefinite and would be difficult for an assessor to try to administer.

COMMENTS

This bill should be strongly opposed. S-1144 is a very bad bill, contrary to the intent of the Farmland Assessment Act in many respects. It opposes preservation of agricultural open space, and will eliminate a large segment of New Jersey agriculture.

The bill is contrary to the current concern for ecology and environmental protection which is of vital benefit to today's citizens, as well as future generations.

S-1144, if enacted, must be revised to be applicable for the tax year 1977 and thereafter, providing it is enacted before August 1, 1976, the filing date for Farmland Assessment applications, so all assessors will have timely knowledge of it in processing applications for tax year 1977.

Applications for tax year 1976 have already been approved or disapproved by law as of November 1, 1975.

It should be pointed out that passage of S-1144 without prior knowledge to the farmers affected by it and the resulting sharp increase in taxes through possible disqualification due to the new requirements could bankrupt and put out of business many farms which might otherwise have revised their farm operations to meet the new income standards had they had timely knowledge of it. Once out of business, the farm could very well be gone forever.

That concludes my remarks on S-1144. Should I go on to S-935?

SENATOR MERLINO: Yes, go ahead.

MR. GRAYSON: Under present law, as a result of passage of S-620 on May 2, 1973, the first 5 acres of any land qualifying under the Farmland Assessment Act must have averaged in gross sales of agricultural or horticultural products produced thereon, together with any soil conservation program payments received, at least \$500 per year during the 2-year period immediately preceding the tax year in issue, or there is clear evidence of at least \$500 in average anticipated gross sales and such payments within a reasonable period of time. This present requirement holds whether the land is used as cropland, cropland pasture, permanent pasture, woodland or wetland.

All acres above the 5 acres by present law must have averaged gross sales of agricultural or horticultural products produced thereon together with any soil conservation payments received of at least \$5 per acre during the 2-year period immediately preceding the tax year in issue or there is clear evidence of anticipated yearly gross sales and such payments averaging at least \$5 per acre per year within a reasonable period of time, except in the case of woodland and wetland where the minimum requirement is an average of 50¢ per acre on the area above 5 acres.

Lines 10 through 20 of S-935 seem to be conflicting statements. They say that, in the case of woodland or wetland, the first five acres shall have average gross sales of products produced thereon, together with any soil conservation payments received, of at least 50¢ per acre per year during the 2 pre-tax year periods or there is clear

evidence of anticipated yearly gross sales of products within a reasonable period of time. On the first 5 acre area, this would require total averaged sales of \$5 for the 2 pre-tax year period to qualify the 5 acres.

In other words, you only have to have an income of \$5 in a 2-year period. In other words, 5 acres times 50¢ times 2 years gives you \$5.

Yet, the statement also says there shall be minimum sales of \$50 per year on the 5 acres during the 2 pre-tax year periods, including soil conservation payments received, or the same anticipated in a reasonable period of time, which will require total minimum sales for the 2 pre-tax year periods on the 5 acres of \$100. In other words, \$50 per year times 2 years is \$100. So you have \$5 against \$100.

This statement (lines 10 through 20) must be clarified, particularly as to the intent, otherwise it will be impossible to interpret and administer it correctly as written. And I am referring to our job as tax assessors.

Lines 10 through 20 apply to the first 5 acres of a qualifying farm. All land above the 5 acres is taken care of in lines 21 through 31, wherein woodland and wetland must average a minimum of 50¢ per acre per year in gross sales (or anticipated), the same as in the present law.

It would seem the intent is to reduce the \$500 minimum sales requirement on woodland and wetland on the first 5 acres to \$50 per year averaged with no change in the requirement on land above the 5 acres.

This would be a further relaxation on the requirement for eligibility of woodland and wetland under the Farmland Assessment Act. An owner of a tract of woodland or wetland would have to do almost nothing to qualify for a substantial reduction in property tax on land, same to be made up by the rest of the taxpayers, and hold the land for speculation with a further erosion of the tax base.

It must be pointed out, as every affected tax assessor in the State knows, that the qualification and assessment of woodland under the Act, with its extremely low assessed value under the Act, is one of the most troublesome and sorest points with the administration of the Act, provoking much aggravation and resentment to the Act by the general public in that such lands qualified pays almost negligible tax, yet can be held for speculation under such circumstances.

While S-935 does lend itself to further preservation of woodland and wetland by relaxed requirements to qualify under the act, it also adds to the already publicly aggravating speculator problem. Instead of tightening up on the Act, as is the intent of S-1144, this bill further liberalizes it and could create great public furor and resentment to the Act, with ultimate appeal of the Act, which would be a catastrophe to New Jersey agriculture, the ecology of the State, and our environmental protection.

Passage of this bill will further expand the speculator problem with the holding of land for sale for development at high prices, while paying almost no taxes, same to be made up by the rest of the taxpayers.

It would seem to be in the best interest of the people of this State that S-935 be opposed.

S-935, if enacted, must be revised to be applicable for the tax year 1977 and thereafter, providing it is enacted before August 1, 1976, the filing date for Farmland Assessment applications, so all assessors will have timely knowledge of it in processing applications for tax year 1977.

Applications for tax year 1976 have already been approved or disapproved by law as of November 1, 1975.

This concludes my remarks on S-935, and thank you for the opportunity to address you and submit my statement.

SENATOR MERLINO: I just have one question, Mr. Grayson. In your comments you gave particulars on S-1144. You said in your very first line that "This bill should be strongly opposed. S-1144 is a very bad bill, contrary to the intent of the Farmland Assessment Act, in many respects. It opposes preservation of agricultural open space, and will eliminate a large segment of New Jersey agriculture."

Could you amplify that?

MR. GRAYSON: Because there is one thing, I think, which must be borne in mind here. The Farmland Assessment Act is an act which applies throughout the entire State of New Jersey, and there are various amounts of income derived from an acre of ground throughout the state. In some areas, I understand it is quite possible to make \$1,000 an acre or more. In other areas, \$100 an acre is a lot of money. And while you can make the \$1,000, if you want to eliminate these people in these certain areas of the State where land is not quite as productive as it is throughout the rest of the State, this bill will do the job. It fits the intent.

Now, if you want to keep farmlands that are taxpaying open space throughout the entire state and let every county and every municipality have its share of this - and bear in mind, as the law is set up now, there is no compensation from the state or anybody else to a municipality who has a lot of its land under Farmland Assessment. This is something I think the Legislature should bear in mind in all its talk on this. There should be a sort of a share and share alike in bearing the burden of making up the difference on the taxes.

The municipalities in some areas are rural areas and because they are such, they have many acres of open space. They have many acres of land under Farmland Assessment, and all this reduced tax has to be made up by the balance of the taxpayers in the municipality. The State, to my knowledge, is not reimbursing the municipality in any way. So I think you have to think here in terms of how this applies to the entire State. And that is what I mean here.

SENATOR MERLINO: You say it will eliminate a large segment of New Jersey agriculture. I thought you meant ---

MR. GRAYSON: I meant, Senator, in effect that there would be many who could not apply. For example, this 20% woodland clause, for example, is one that -- a lot of that land will not qualify. Now the remaining acres on a particular farm cannot support it. The land will have to be sold.

SENATOR MERLINO: I had in mind a particular part of the agricultural industry in New Jersey, you know, cranberries or ---

MR. GRAYSON: I suppose I should qualify that. I didn't have any specific type of crop in mind. I meant basically in terms of acres. Like you might say on this question of \$500, in increasing this \$500 to \$1,000 - as is mentioned - this \$1,000 in certain areas probably would be a legitimate figure, but in other areas -- bear in mind, this Act is based on the 5 acre minimum. Now, if you have a \$500 minimum figure, that means \$100 per acre. Now, in certain areas with certain types of crop, \$500 is not easy to make. Now, in certain years, yes, it might be possible if you have the proper conditions. In other areas, you could make \$1,000 with no problem at all, and you could maybe even double that. But as I say, the Act applies to the entire State, and you have to take into consideration all types of situations.

Some people may see it one way, and others may see it another way. The problems are different in all parts of the State. The general law applies generally to the entire State of New Jersey, and there are all sorts of conditions. So it is amazing that it is working as good as it is.

SENATOR MERLINO: Are there any further questions?

MR. LAURENTI: Yes, Senator, if I may. Mr. Grayson, in your remarks on Senate Bill 1144 you asserted that an extension of the roll-back provision from 3 to 6 years would discourage farmers from trying to hold on and continue farming. Faced with a stiffer tax penalty for converting what is basically tax sheltered farmland, how would that discourage farmers from trying to hold on?

MR. GRAYSON: Well, because of the penalty involved here -- at least it has been my experience --- In other words, the one to change the use usually should be the one liable to pay the tax. Now, if you are the buyer, and you are going to buy my farm and you knew you were going to have to pay \$200 or \$300 or \$1,000 an acre or more in roll-back tax, I think if you had any sense you would say, well, if I am asking \$3,000 you are not going to pay me that. You know you are not going to make that money. You are going to have to pay that out. So you are going to take that off the sale price.

So, as a result, the fellow that owns the land, he is not going to get what he would like to get. He is going to in a sense, indirectly, pay the roll-back tax. Now if you take 6 years of taxes, in certain instances that could mean \$1,000 in taxes. This is something that a lot of people don't realize. You are not talking pennies when you are talking a roll-back tax.

It is true, this can vary. Land can be worth \$5 an acre, and in certain areas of the State it can be \$30,000 or \$40,000 an acre. Now, if you are holding back particularly woodland, where, under the Farmland Assessment Act the values run anywhere from \$15 to \$20 an acre-- and I am quoting the Farmland Evaluation Committee's figures, which I use, and personally I feel every assessor should use - up to even \$25,000 an acre, you can imagine the different assessed values times the tax rate what kind of a roll-back tax you are talking about. You are not talking peanuts. This, gentlemen, goes into the thousands, and very, very large figures. I mean, this is what I am referring to on that point.

It is bad enough for three years. I have heard the mention of a two-year roll-back. Actually it is the year it changed use plus the two years back, so in effect it is three years, and in this case it is five years plus the year it changed its use, so it is six years. So, this is what I mean. You can be talking a staggering figure, and then the farmer, indirectly - or the owner of the land - is going to have to foot that bill, and he begins to put two and two together, and he has a lot of hardship and a lot of problems, and looks what he is faced with, and so he looks to sell it. What is the use of hanging on. He might as well get while the getting is good and forget it. This is what I meant when I said that.

MR. LAURENTI: Just one other question. On S-935, in your remarks there you described the woodlands and wetlands tax abatement as reflecting extremely low assessed value and as being one of the most troublesome and sorest points of administration of the act, alluding to the aggravation and resentment that accrues because of that particular treatment.

In his remarks, Assessor Haines of Vineland noted that the value of the wetlands has diminished considerably since the Wetlands Act robbed them of some of the potential developable value. Why should the Legislature continue special treatment of the wetlands at all?

MR. GRAYSON: Well, you are going in another direction. S-935 is liberalizing it, and I am proposing S-935 -- Personally, I don't live in south Jersey, and I am not

that familiar with wetland, but I think you also have the Wetland Act. I think this type of thing should come under the Wetlands Act, rather than under the Farmland Assessment Act. I believe you have wetland down in the shore area where the ocean is involved, and now then we would get into a question of clarifying this thing. If a farmer has 100 acres, say, and he has a lot of swamp land and a big part of the year it is under water, well, is or isn't that wetland? Now, there is that wetland, and there is the coastal area wetland where the ocean is involved. It is sort of two different kinds of wetland, which is something that ought to be given consideration too, as to what is the real intent here.

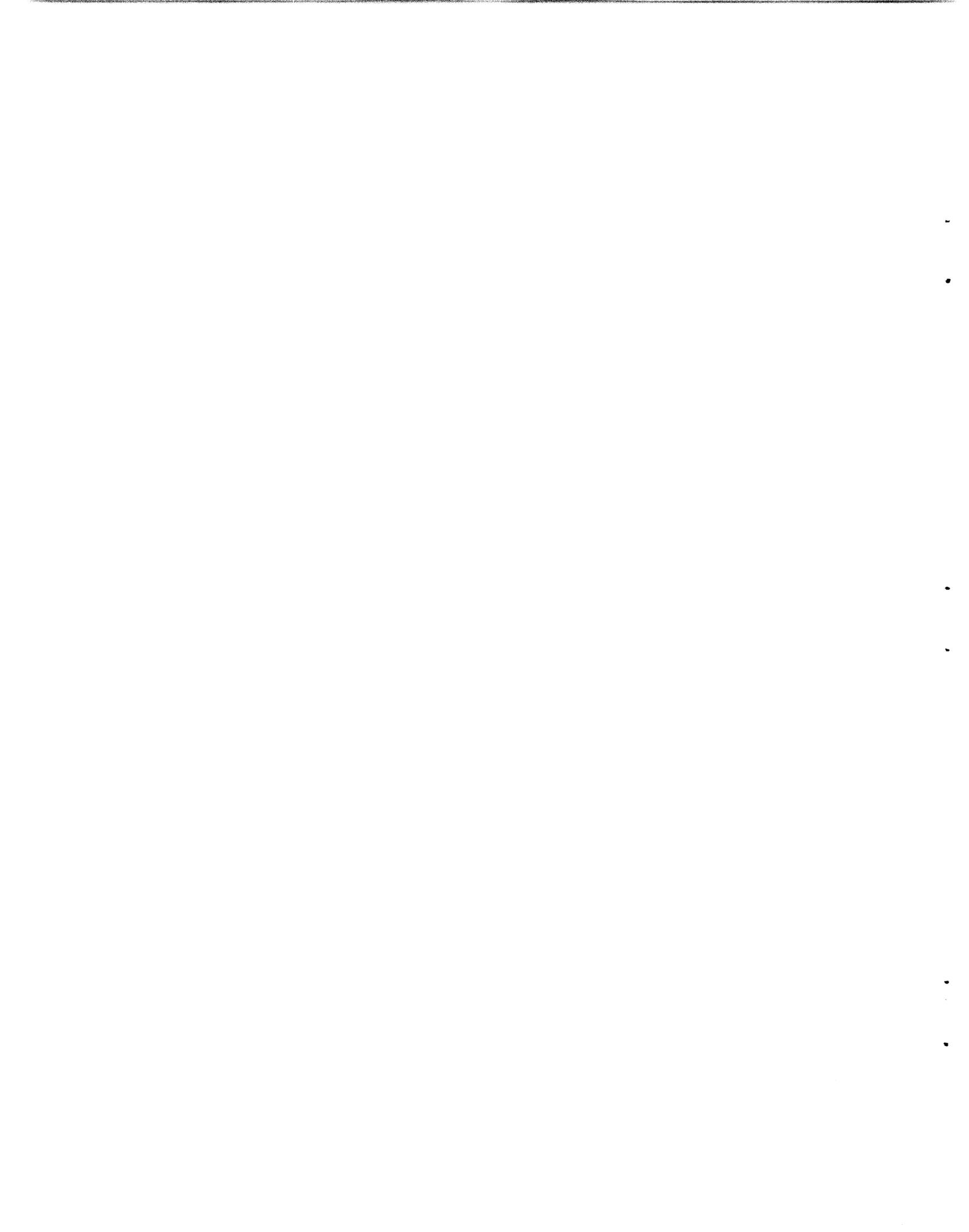
SENATOR MERLINO: Are there any other questions? Thank you, Mr. Grayson. Mr. West, I believe you wanted to make a statement.

MR. WEST: There is one point I would like to make on this wetland issue. You are talking about the wetlands that are covered under the wetlands legislation as I assume Mr. Haines was talking about is one thing. But you must remember, though, a lot of wetlands in the upland country is not covered under the wetland legislation. That map is kind of unique in how it circles around the State. So I think we need these wetland provisions in the Farmland Assessment Act to take care of the wetlands in the upland areas that are not covered under the Wetlands Act. So that is the reason I think it is dangerous to tamper with that.

SENATOR MERLINO: Thank you. Does anyone else wish to offer testimony. Thank you all for coming. Hopefully we can put all this information to good use.

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(HEARING CONCLUDED)



NEW JERSEY MANUFACTURERS
ASSOCIATION

TRENTON, NEW JERSEY 08607

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NEW JERSEY MANUFACTURERS ASSOCIATION
STATEMENT ON S-3349
PRESENTED TO THE
SENATE COMMITTEE ON REVENUE, FINANCE AND APPROPRIATIONS

November 25, 1975

Mr. Chairman, Members of the Committee:

I am Robert A. Woodford, Assistant Vice President of New Jersey Manufacturers Association, appearing on behalf of the Association to present our views on Senate Bill No. 3349.

Senate Bill 3349 would permit qualifying municipalities, through local ordinance, to provide a five year tax abatement for taxable value added as a result of the renovation of commercial and industrial properties more than 20 years old. While we would like to see certain modifications in the language of the bill, we support authorization of these limited commercial and industrial abatements, particularly since they would affect communities presently empowered to provide similar abatements for improved residential properties.

There can be little question of the need to stimulate modernization of older commercial and industrial properties in the central cities of New Jersey.

We are confident that any successful program of tax abatements or exemptions will bolster, rather than deplete, the tax base while strengthening the economy and employment base of a community offering such incentives.

The growing obsolescence and declining employment potential of business properties in the older cities differ only in degree from the inadequate rate of industrial investment characteristic of New Jersey as a state. As demonstrated

in the Ninth Annual Report of the Economic Policy Council and Office of Economic Policy, New Jersey has lagged far behind the national rate of investment in new industrial plants and equipment as related to value added in manufacturing.

We endorse S-3349 while recognizing that the business climate and cost of doing business in New Jersey, particularly governmentally imposed costs, encourage investors to look elsewhere. Tax abatement limited to the renovation of older properties may, if combined with other efforts and incentives, result in gains for our older cities; nevertheless, we question whether major changes in our bleak economic picture can occur short of a broad scale effort to create investment incentives applicable to industrial facilities -- new and old -- throughout the entire state. Because S-3349 affects the taxation of structures, not of machinery, its impact on the industrial sector may depend on the development of an attractive program of investment incentives to bolster New Jersey's ailing economy.

Attached to this statement is the NJMA testimony on tax incentives presented to the Governor's Economic Recovery Commission on October 8. In that testimony, we reviewed a broad range of investment incentives available in neighboring states but unavailable in New Jersey. We urge you, as we urged the Commission, to support three important steps in stimulating the modernization and location of industry in New Jersey:

- (1) exemption from the sales tax of purchases of machinery and equipment used in production;
- (2) exemption of new purchases of these same items from the State Business Personal Property Tax; and
- (3) creation of an investment credit against the corporation tax for new investments in manufacturing and research and development facilities and equipment.

Even if these incentives are phased in over a period of years, it is essential that the Legislature act now to enact them. As stated in the Ninth Annual Report, Office of Economic Policy: "without a strong recovery from the current recession, New Jersey might enter a period of absolute decline of manufacturing output."

While supporting S-3349, we recommend certain modifications.

First, the definition of "qualified municipality," section 2(c), should be replaced with a specific definition rather than a reference to another act.

Second, the definition of "improvement," as improvement of a structure "which does not change its size," appears so restrictive as to threaten the qualification of a remodeled structure with even minor changes in facade, entry or setback. We recommend a rewording of the definition to include remodeling of a structure "which does not increase its exterior dimensions by more than five percent."

Although we presume from the language of section 3 that the bill authorizes only the abatement of municipal taxes, the taxability of qualifying improvements for school district and county purposes should be made explicit.

Appendix

Part III: Taxes

Statement of
New Jersey Manufacturers Association
to the
Governor's Economic Recovery Commission
October 8, 1975

Mr. Chairman, Members of the Commission, I am Robert A. Woodford, Assistant Vice President of New Jersey Manufacturers Association and staff advisor to the NJMA Committee on Taxation.

You have already heard from Association spokesmen concerning the difficulties and costs confronted by industry in complying with environmental regulations. You have been acquainted with problems in our worker benefit programs and comparative worker benefit program costs shown in the Ernst & Ernst study. What may not be as evident in the Ernst & Ernst study is the fact that even if worker benefit program costs are excluded, the remaining state and local tax costs (real property, personal property, sales and corporation taxes) are higher in New Jersey than in our three neighbors -- New York, Pennsylvania and Delaware.

New Jersey fared poorly in the comparison of property and sales taxes. Only the comparison of corporation tax burden favored New Jersey -- an advantage which since has been largely erased by the increase in the rate from 5.5% to 7.5% of corporate net income.

Perhaps the best means of explaining New Jersey's serious competitive disadvantage is to review important provisions and incentives in the sales, corporation and property tax laws of surrounding states. It should be noted that New Jersey has none of the incentives listed below.

Selected Tax Incentives in Surrounding States

NEW YORK

- Sales tax. (a) Exemption for production machinery and equipment.
(b) Exemption for services to goods shipped to out-of-state customers.

Corporation tax. (a) 2% credit for purchase of plant and equipment, including pollution control equipment.
 (b) Loss carry-forward and carry-back provision.
 (c) Special treatment of DISC's (Domestic International Sales Corporations).
 (d) Corporations pay net worth tax only as an alternate minimum tax.

Property tax. No tax on business personal property (state or local).

PENNSYLVANIA

Sales tax. Exemption for production machinery and equipment.

Corporation tax. Manufacturing and research and development facilities exempt from capital stock tax.

Property tax. No tax on business personal property (state or local).

DELAWARE

Sales tax. None imposed.

Corporation tax. Special treatment of DISC's.

Property tax. No tax on business personal property (state or local).

RHODE ISLAND

Sales tax. Exemption of production machinery and equipment being phased in over four-year period. Full exemption July 1, 1978.

Corporation tax. (a) 2% credit for purchase of manufacturing plant or equipment or research and development facilities.
 (b) Net operating loss carry-forward and carry-back.
 (c) Special treatment of DISC's.
 (d) Accelerated deduction for research and development facilities (if credit not taken).

Property tax. Exemption of manufacturer's machinery and equipment purchased after December 31, 1974. Phased-in exemption (full by 1982) for production machinery and equipment purchased before January 1, 1975.

MASSACHUSETTS

Sales tax. (a) Exemption for production machinery and equipment.
 (b) Exemption for replacement parts, tools and supplies used in production.

- Corporation tax.
- (a) 3% credit for purchase of manufacturing or research and development facilities and equipment.
 - (b) Corporate property (net worth) tax being phased out. Rate reduction from \$7.98 in 1973 to \$2.60 per \$1,000 in 1975.
 - (c) Loss carry-forward.
 - (d) \$500 credit for each individual hired from public assistance rolls if payroll increase exceeds 3% of prior year.
 - (e) Corporate excise special credit for new construction in community with substantial poverty.
 - (f) Full deduction of air pollution and waste treatment facilities from property base of corporate tax.

Property tax. No tax on business personal property used in manufacturing (state or local), except as part of corporation excise tax.

New Jersey contrasts strikingly with recent efforts of other northeastern industrial states to induce manufacturing growth and thereby strengthen other sectors of their economies.

- Corporation tax.
- (1) We lack an investment credit for new plant and equipment in manufacturing or research and development.
 - (2) We lack a loss carry-forward and carry-back provision.
 - (3) We do not provide special treatment for DISC's.
 - (4) We impose both a net income tax and net worth tax on corporations.
 - (5) No net worth tax deduction is provided for pollution control facilities.
 - (6) Manufacturing facilities are not exempt from the net worth tax.

- Sales tax.
- (1) We tax production machinery and equipment.
 - (2) We tax spare parts, tools and supplies used in production.
 - (3) We tax services to goods shipped to customers out of state for use out of state.

Property We impose a State Business Personal Property Tax.

In view of these burdens, combined with our high worker benefit program costs, high pollution control costs, high land and labor costs, it should surprise no one that New Jersey has not enjoyed a major influx of new manufacturing facilities. Yet, what is more disturbing is the loss of manufacturing jobs and investment -- an actual outflow to other states.

- (a) New Jersey had 167,000 fewer jobs in manufacturing in July, 1975 than at the peak of the 1969 business boom.
- (b) Countless plants have closed and many more have cut back on operations in New Jersey while maintaining production in other states.
- (c) Investment in New Jersey manufacturing plants and equipment has lagged behind the nation, when capital investment is compared with value added in manufacturing. (See upcoming 8th Annual Report of the Economic Policy Council and Office of Economic Policy.)

A Basis For Selecting Incentives

In our opinion, New Jersey can rebuild its manufacturing sector, thereby creating jobs in industry, construction and services, bolstering the market for those industries presently located here, relieving unemployment and welfare rolls and related government costs and bolstering state and local tax yields. We can if we welcome manufacturing as an essential asset and create investment incentives.

Geographic relocation (placing producers nearer markets in the growing south and west) has largely run its course. The name of the game now is cost of investment and cost of operation. As a large market with excellent air, rail, road and water transportation facilities, a gateway to both the American market and the Common market, manufacturing growth is by no means beyond our reach.

We urge the creation of tax incentives to induce the in-state renovation, replacement and expansion of manufacturing facilities. Manufacturing has long been the flywheel of New Jersey's economy. Capital investment is the engine.

Speaking from our experience with New Jersey industries:

- (1) Most investment in manufacturing results from the replacement, renovation or expansion of existing facilities, rather than from plant relocations.
- (2) Much of our loss of manufacturing jobs has resulted from the obsolescence of older plants and equipment whose inefficiency raises costs, thereby reducing sales and profits needed for reinvestment.

- (3) Imposing a sales tax, personal property tax and corporate net worth tax on machinery and equipment used in manufacturing -- without counterbalancing credits or deductions -- is an obstacle to modernization of New Jersey industries.

Our conclusions are supported by both our low rate of capital investment in manufacturing (relative to the national rate) and the state's slow rebound in manufacturing employment following recent recessions. The relative obsolescence of New Jersey plants, together with the high costs of operation here, has induced manufacturers, having plants in various parts of the country, to restore full production elsewhere before using excess plant capacity in New Jersey. The result at the end of the 1970-71 recession was -- as Commissioner Hoffman has described it -- a failure of New Jersey to recover from that recession.

Recommendations

Most of the incentives existing in surrounding states are desirable; however, we lack the resources to do at once all that needs doing. We, therefore, urge that incentives be selected which will directly stimulate capital investment in manufacturing. Specifically, we urge the following:

- (1) Restore the sales tax exemption for production machinery and equipment.
- (2) Exempt new purchases of production machinery and equipment from the State Business Personal Property Tax.
- (3) Provide a 2% or 3% investment credit against the Corporation Business Tax for new purchases of manufacturing or research and development facilities and equipment in New Jersey.
- (4) Exempt new purchases of manufacturing machinery and equipment for use in New Jersey from the net worth portion of the Corporation Business Tax.
- (5) Provide a sales tax exemption for industrial pollution control equipment and facilities.

Of these, the first three proposals should be viewed as most important.

Are Incentives Affordable?

Whenever business tax incentives are proposed, someone promptly raises the question: "How can we pay for these? What tax should we impose to pay for these?"

In 1970, we supported a proposed 1% increase in the Corporate Net Worth Tax to finance the restoration of a sales tax exemption on production machinery and equipment. Last year, we supported, with some reservations, the Assembly Taxation Committee's effort to use the proposed Corporate Net Income Tax rate hike to pay for tax incentives and repeal of various existing business taxes. We wish to make it completely clear at this time that we can no longer accept any further increase in the corporation tax for any purpose whatever. The combination of our 7.5% tax rate on corporate net income and the 2 mils tax on corporate net worth gives us the equivalent of a 9.5% tax on corporate net income. This exceeds the corporation tax in New York and Delaware and equals the corporation tax rate in Pennsylvania. In view of our serious cost disadvantages, no further increase in the corporation tax is affordable.

If, in fact, tax incentives are capable of producing an increase in manufacturing investment, the increase in investment itself should more than substitute for the tax base lost through incentives. Expanding New Jersey businesses would purchase a broad range of goods and services, to pay sales tax on construction materials, add to taxable local ratables, pay taxes on increased earnings, hire and pay substantial wages to persons presently unemployed (who would otherwise be unable to construct houses or make taxable purchases). Reemploying persons who now receive tax-supported benefits would reduce the cost of government. The economic and social gains from a well-designed incentive program could far exceed its cost.

With the exception of the sales tax exemption for production machinery, our proposals really call for the phasing-in of new tax structure. If budget limitations are an impediment to restoration of the sales tax exemption, we would find a phasing-in of the exemption (as in Rhode Island) an acceptable, although less desirable, alternative.

We think it is time that the officials and citizens of New Jersey recognized the fallacy in political rhetoric which states that no tax incentive can be provided to business unless compensating business taxes are imposed at the same time. It was our failure to sustain an attractive climate for investment, which has reduced the state's tax base, diminished our ability to provide governmental services and increased the cost of governmental programs (welfare, employment and related services) which resulted in higher taxes for all citizens. We should not hesitate to use some of the revenue from consumer taxes or from a personal income tax (if such a tax passes) to support economic stimulants. Such an investment in New Jersey's future would pay countless dividends in economic growth, in jobs, in reduced governmental costs and in the ultimate expansion of our state and local tax bases.



State of New Jersey



TWELFTH

REPORT OF

THE STATE FARMLAND
EVALUATION
ADVISORY COMMITTEE

- 1 9 7 5 -

"FARMLAND ASSESSMENT
ACT OF 1964"

Chapter 48, Laws of 1964

TRENTON, NEW JERSEY



OCTOBER, 1975

ACKNOWLEDGMENTS

The State Farmland Evaluation Advisory Committee gratefully acknowledges the assistance provided by members of the staff of Cook College, formerly the College of Agriculture and Environmental Science, Rutgers - the State University. Particular commendation is extended to Dr. George W. Luke, Professor, Department of Agricultural Economics and Marketing and Dr. John C. F. Tedrow, Professor of Soils and Crops.

Also acknowledged with the thanks of the Committee are the services rendered by L. Warren Mahn, Chief, Appraisal Section, Local Property and Public Utility Branch (Local Property Tax), Division of Taxation, New Jersey Department of the Treasury and John P. Van Zandt, Coordinator of Vital Resources, New Jersey Department of Agriculture.

Address inquiries to:

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Division of Taxation Building
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Trenton, New Jersey 08625

REPORT OF STATE FARMLAND EVALUATION ADVISORY COMMITTEE

The Farmland Assessment Act of 1964 (Chapter 48, Laws of 1964) created a State Farmland Evaluation Advisory Committee and designated as the members thereof the Director of the Division of Taxation; the Dean of Cook College, formerly the College of Agriculture and Environmental Science, Rutgers - the State University; and the Secretary of Agriculture. The Act prescribed the functions and responsibilities of the Committee as follows:

"... The Committee shall meet from time to time on the call of the Secretary of Agriculture and annually determine and publish a range of values for each of the several classifications of land in agricultural and horticultural use in the various areas of the State. The primary objective of the Committee shall be the determination of the ranges in fair value of such land based upon its productive capabilities when devoted to agricultural or horticultural uses. In making these annual determinations of value, the Committee shall consider available evidence of agricultural or horticultural capability derived from the soil survey at Rutgers - the State University, the National Cooperative Soil Survey and such other evidence of value of land devoted to agricultural or horticultural uses as it may in its judgment deem pertinent. On or before October 1 of each year, the Committee shall make these ranges of fair value available to the assessing authority in each of the taxing districts in which land in agricultural or horticultural use is located."

The same methodology, originally developed and utilized in all prior reports, has been continued in determining the ranges in fair value of farmland for the current report.

The primary data sources, representing the most reliable and comprehensive information available to the Committee, are the United States Census of Agriculture and the United States Department of Agriculture Farm Income Reports.

The Committee submits this 1975 Report in conformity with the Farmland Assessment Act of 1964.

Phillip Alampi

Secretary of Agriculture

October 1, 1975

Grant J. Halton

Acting Dean, Cook College, formerly the College
of Agriculture and Environmental Science

Sidney Glaser

Director
Division of Taxation

Farmland Assessment - Statutory Limitation

The Farmland Assessment Act authorizes and mandates assessment of qualified farmland on the basis of its productivity value in agriculture or horticulture rather than on the basis of its market value.

Productivity Value

Assessment of farmland on the basis of its productivity value presents a number of difficulties. The principal difficulties arise for two important reasons:

1. Exact measures of the innate productivity of the 215 soil types in New Jersey are not available although there is a scientific base for making reasonable estimates of productivity.
2. The productivity of farmland varies with its particular use.

A method of overcoming the principal difficulties lies in combining the scientific knowledge available on the characteristics of New Jersey soils and their economic potential according to current uses in agriculture. The procedure is simplified by grouping the 215 soil types into five rated soil groups and four of the most common uses of land by farmers. Net income from the land is capitalized and allocated on the basis of the above rated capabilities.

Agricultural Soil Grouping

New Jersey is fortunate in having a complete set of maps and a description of all of its soils. To aid in the assessing process, the

agricultural soils have been categorized 1/ into five 2/ groups:

- Group A - Very productive farmland, suitable for permanent cultivation. With proper management, yields tend to be high. Usually the most desirable soil in the area.
- Group B - Good farmland, suitable for permanent cultivation. Yields are generally fairly high.
- Group C - Fair farmland, suitable for permanent cultivation. Yields tend to be lower than those in Groups A and B. The limiting factors are usually shallowness, droughtiness, or excessive moisture.
- Group D - Rather poor farmland, usually wet, stony, droughty, or otherwise unsuitable for permanent cultivation.
- Group E - Land unsuitable for tillage, usually because of excessive water, shallowness, stoniness, or droughtiness.

In arriving at a realistic classification (placing each soil into one of five groups), the following factors were primarily used: general suitability of the soil for farming, mechanical composition, depth of the soil, drainage, stoniness, and other related properties. This grouping, however, does not take into consideration availability of water, topography, soil erosion, and the degree of slope.

1/ Productive Capability of New Jersey Soils; Dr. J. C. F. Tedrow, Department of Soils and Crops, Rutgers - the State University. A Soils Guide for Use in Connection with the Valuation, Assessment and Taxation of Land Under the "Farmland Assessment Act of 1964" Chapter 48, Laws of 1964. (N. J. S. A. 54:4-23.1 et seq.)

2/ There is a sixth group, Group F, which is land of no agricultural value, consisting of rock outcrop, rough stony land, coastal beaches and clay pits. Such land is not deemed eligible for assessment under the Farmland Assessment Act of 1964.

Land Use Classes

Land use on the typical New Jersey farm differs for various reasons but the primary uses of land can be combined into four distinct classes: cropland harvested, cropland pastured, permanent pasture, and woodland. These classes are described below:

1. Cropland harvested - This is the heart of the farm and represents the highest use of land in agriculture. All land from which a crop was harvested in the current year falls into this category.
 2. Cropland pastured - This land can be and sometimes is used for cropland. However, because of the organization of certain types of farming, it is often found in pasture from which the maximum potential income may not be realized in any particular year. All cropland pastured falls into this category.
 3. Permanent pasture - This land is not cropped because its economic potential is greater in pasture. It is meadow land, the rough and stony land, the land with a high degree of slope. It is usually unimproved land which farmers have found to be non-productive except for pasturing and haying.
 4. Woodland - This is land producing trees. Woodlands are found on all soil groups, however, a large portion of this land is not suitable for other agricultural uses due to slope, drainage, soil type or rough rocky topography and its best agricultural use is to remain in trees.
- Wetlands - Those lands as determined by Regulations adopted by the Department of Environmental Protection.

Deriving Ranges of Value for Farmland

Ranges in value of farmland were determined for each county by the method of capitalizing the net income from farming. The general method of calculation employed in the derivation of these values are shown in Appendix A.

THE VALUES SHOWN IN TABLE I ARE THE COMMITTEE'S ESTIMATES OF THE VALUE OF FARMLAND BASED UPON ITS PRODUCTIVE CAPABILITIES WHEN DEVOTED TO AGRICULTURAL OR HORTICULTURAL USES. THESE ARE THE RANGES OF VALUE OF FARMLAND WHICH THE COMMITTEE IS MAKING AVAILABLE TO THE ASSESSING AUTHORITY IN EACH OF THE TAXING DISTRICTS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 20 OF THE FARMLAND ASSESSMENT ACT OF 1964.

IMPORTANT NOTE TO ASSESSORS

Table I contains the county estimates of the value of farmlands determined by the State Farmland Evaluation Advisory Committee. They are suggested values which may be modified in individual instances by special conditions such as availability of water, topography, soil erosion and the degree of slope.

These values are designed as guidelines for the assessor. It remains his ultimate responsibility to determine the assessed value of qualified farmland in accordance with the standards prescribed in the Farmland Assessment Act of 1964 (Chapter 48, Laws of 1964).

TABLE 1

Estimates of Ranges in Value of Farmland Based Upon Its
Productive Capabilities When Devoted to Agricultural
or Horticultural Use - By County

COUNTY	SOIL GROUP	CROPLAND HARVESTED		CROPLAND PASTURED		PERMANENT PASTURE		WOODLAND	
		Soil Rating	Value per Acre	Soil Rating	Value per Acre	Soil Rating	Value per Acre	Soil Rating	Value per Acre
Atlantic	A	120	\$ 528	120	\$ 264	110	\$ 97	110	\$ 24
	B	100	440	100	220	100	88	100	22
	C	70	308	70	154	80	70	90	20
	D	40	176	40	88	70	62	80	18
	E	10	44	10	22	60	53	70	15
Bergen	A	120	720	120	360	110	132	110	33
	B	100	600	100	300	100	120	100	30
	C	70	420	70	210	80	96	90	27
	D	40	240	40	120	70	84	80	24
	E	10	60	10	30	60	72	70	21
Burlington	A	120	336	120	168	110	62	110	15
	B	100	280	100	140	100	56	100	14
	C	70	196	70	98	80	45	90	13
	D	40	112	40	56	70	39	80	11
	E	10	28	10	14	60	34	70	10
Camden	A	120	600	120	300	110	110	110	28
	B	100	500	100	250	100	100	100	25
	C	70	350	70	175	80	80	90	23
	D	40	200	40	100	70	70	80	20
	E	10	50	10	25	60	60	70	18
Cape May	A	120	360	120	180	110	66	110	16
	B	100	300	100	150	100	60	100	15
	C	70	210	70	105	80	48	90	14
	D	40	120	40	60	70	42	80	12
	E	10	30	10	15	60	36	70	10
Cumberland	A	120	456	120	228	110	84	110	21
	B	100	380	100	190	100	76	100	19
	C	70	266	70	133	80	61	90	17
	D	40	152	40	76	70	53	80	15
	E	10	38	10	19	60	46	70	13
Essex	A	120	720	120	360	110	132	110	33
	B	100	600	100	300	100	120	100	30
	C	70	420	70	210	80	96	90	27
	D	40	240	40	120	70	84	80	24
	E	10	60	10	30	60	72	70	21
Gloucester	A	120	480	120	240	110	88	110	22
	B	100	400	100	200	100	80	100	20
	C	70	280	70	140	80	64	90	18
	D	40	160	40	80	70	56	80	16
	E	10	40	10	20	60	48	70	14
Hudson	A	120	720	120	360	110	132	110	33
	B	100	600	100	300	100	120	100	30
	C	70	420	70	210	80	96	90	27
	D	40	240	40	120	70	84	80	24
	E	10	60	10	30	60	72	70	21
Hunterdon	A	120	432	120	216	110	79	110	20
	B	100	360	100	180	100	72	100	18
	C	70	252	70	126	80	58	90	16
	D	40	144	40	72	70	50	80	14
	E	10	36	10	18	60	43	70	13

COUNTY	Soil Group	CROPLAND HARVESTED		CROPLAND PASTURED		PERMANENT PASTURE		WOODLAND	
		Soil Rating	Value per Acre	Soil Rating	Value per Acre	Soil Rating	Value per Acre	Soil Rating	Value per Acre
Mercer	A	120	\$ 456	120	\$ 228	110	\$ 84	110	\$ 21
	B	100	380	100	190	100	76	100	19
	C	70	266	70	133	80	61	90	17
	D	40	152	40	76	70	53	80	15
	E	10	38	10	19	60	46	70	13
Middlesex	A	120	480	120	240	110	88	110	22
	B	100	400	100	200	100	80	100	20
	C	70	280	70	140	80	64	90	18
	D	40	160	40	80	70	56	80	16
	E	10	40	10	20	60	48	70	14
Monmouth	A	120	480	120	240	110	88	110	22
	B	100	400	100	200	100	80	100	20
	C	70	280	70	140	80	64	90	18
	D	40	160	40	80	70	56	80	16
	E	10	40	10	20	60	48	70	14
Morris	A	120	480	120	240	110	88	110	22
	B	100	400	100	200	100	80	100	20
	C	70	280	70	140	80	64	90	18
	D	40	160	40	80	70	56	80	16
	E	10	40	10	20	60	48	70	14
Ocean	A	120	360	120	180	110	66	110	16
	B	100	300	100	150	100	60	100	15
	C	70	210	70	105	80	48	90	14
	D	40	120	40	60	70	42	80	12
	E	10	30	10	15	60	36	70	10
Passaic	A	120	720	120	360	110	132	110	33
	B	100	600	100	300	100	120	100	30
	C	70	420	70	210	80	96	90	27
	D	40	240	40	120	70	84	80	24
	E	10	60	10	30	60	72	70	21
Salem	A	120	336	120	168	110	62	110	15
	B	100	280	100	140	100	56	100	14
	C	70	196	70	98	80	45	90	13
	D	40	112	40	56	70	39	80	11
	E	10	28	10	14	60	34	70	10
Somerset	A	120	456	120	228	110	84	110	21
	B	100	380	100	190	100	76	100	19
	C	70	266	70	133	80	61	90	17
	D	40	152	40	76	70	53	80	15
	E	10	38	10	19	60	46	70	13
Sussex	A	120	360	120	180	110	66	110	16
	B	100	300	100	150	100	60	100	15
	C	70	210	70	105	80	48	90	14
	D	40	120	40	60	70	42	80	12
	E	10	30	10	15	60	36	70	10
Union	A	120	720	120	360	110	132	110	33
	B	100	600	100	300	100	120	100	30
	C	70	420	70	210	80	96	90	27
	D	40	240	40	120	70	84	80	24
	E	10	60	10	30	60	72	70	21
Warren	A	120	360	120	180	110	66	110	16
	B	100	300	100	150	100	60	100	15
	C	70	210	70	105	80	48	90	14
	D	40	120	40	60	70	42	80	12
	E	10	30	10	15	60	36	70	10

APPENDIX A

DERIVATION OF THE FARMLAND ASSESSMENT VALUES

a. The U. S. Census of Agriculture, published every 5 years, contains a listing of farmland use acreage categories for each county. These acreage categories were combined into exclusive and easily identifiable land use classes of Cropland Harvested, Cropland Pastured, Permanent Pasture and Woodland. U. S. Census of Agriculture categories combined into the four land use classes:

1. Cropland Harvested - Cropland harvested, cropland not harvested and not pastured.
2. Cropland Pastured - Cropland used only for pasture.
3. Permanent Pasture - Other pasture, other land.
4. Woodland - Woodland pastured, woodland not pastured.

In order to estimate the acreage of land in each class, by county, for 1975, a projection is made on the basis of census data from 1954 to 1969.

Example of Projected Acreage for a County

	<u>1959</u>	<u>1964</u>	<u>1969</u>	<u>1975</u>
1. Cropland Harvested	60,826	57,972	47,516	45,975
2. Cropland Pastured	18,679	13,416	13,445	10,511
3. Permanent Pasture	18,546	16,146	11,710	9,170
4. Woodland	14,825	14,867	16,453	12,286

Sources: U. S. Department of Commerce; Bureau of the Census, U. S. Census of Agriculture; Statistics for the State and Counties, New Jersey. 1954, 1959, 1964, 1969.

- b. The U. S. Department of Agriculture publishes annual estimates of State farm income. The various items of income and expenses used in determining the net farm income below were projected on the basis of these published estimates and current data available in the Department of Agricultural Economics and Marketing, Cook College.

Estimated Net Farm Income - 1975

	<u>Million Dollars</u>
Cash Receipts from Farm Marketings <u>1/</u>	223.4
Government Payments	0.7
Value of Home Consumption	2.6
Change in Inventory	<u>+2.3</u>
Gross Farm Income	229.0
Farm Production Expenses <u>2/</u>	<u>208.6</u>
NET FARM INCOME <u>3/</u>	20.4

Sources: U. S. Department of Agriculture, U. S. Census, Federal Crop Reporting Service and Department of Agricultural Economics and Marketing, Rutgers University.

- c. The percentage of State farm income arising from agriculture in each county was projected for 1975 on the basis of census data from 1954 to 1969. 1/

Example of Projected County Income as a Percent of State Income

	<u>1954</u>		<u>1959</u>		<u>1964</u>		<u>1969</u>		<u>1975</u>	
	<u>Mil. \$</u>	<u>%</u>								
<u>County</u>	12.2	8.3	12.5	8.5	13.0	8.4	12.8	8.0	14.3	7.9
<u>State</u>	148.3	100.0	147.3	100.0	154.3	100.0	161.5	100.0	181.2	100.0

Source: U. S. Department of Commerce, Bureau of the Census, U. S. Census of Agriculture; Statistics for the State and Counties, New Jersey. 1954, 1959, 1964, 1969.

- d. State net farm income for 1975 was allocated to the counties on the basis of the ratios to gross farm income calculated under step c.

Example of Determination of Net Income by County 1975

	<u>Percent</u>	<u>Net Farm Income</u> (Mil. Dollars)
<u>County</u>	7.9	1.6
<u>State</u>	100.0	20.4

- e. Net income for each county was then capitalized according to a return of 10 percent. 4/

Examination of Determination of Total Value of Land in Farms for a County

	<u>Net Income</u> (Mil. Dollars)	<u>Capitalized Value</u> (Mil. Dollars)
County	1.6	16.0

- f. The average value per acre of each land use class was determined for each county by the productivity rating shown below. 5/

<u>Land Use Class</u>	<u>Productivity Rating</u>
Cropland Harvested	20
Cropland Pastured	10
Permanent Pasture	4
Woodland	1

The following formula is used to compute the average values:

Example of Computing Value for Land Use Classes for a County

- (1) $20 (X) (\text{Cropland Harvested Acres}) + 10 (X) (\text{Cropland Pastured Acres}) + 4 (X) (\text{Permanent Pasture Acres}) + (X) (\text{Woodland Acres}) = \text{Capitalized Net Income.}$
- (2) $(20 \times 45,975 \text{ Cropland Harvested Acres}) X + (10 \times 10,511 \text{ Cropland Pastured Acres}) X + (4 \times 9,170 \text{ Permanent Pasture Acres}) X + (1 \times 12,286 \text{ Woodland Acres}) X =$
 $\$16,116,000 (\text{Capitalized County Net Income})$

$$1,073,576 X = \$16,116,000$$

$$X + \$15.01 (\text{use } \$15.00) \text{ per acre}$$

- (3) Average value for land classes

Cropland Harvested	$20 \times \$15.00 = \300
Cropland Pastured	$10 \times \$15.00 = 150$
Permanent Pasture	$4 \times \$15.00 = 60$
Woodland	$1 \times \$15.00 = 15$

g. Value per acre for the classes of land was calculated for each county.

<u>COUNTY</u>	<u>CROPLAND HARVESTED</u> (\$ per acre)	<u>CROPLAND PASTURED</u> (\$ per acre)	<u>PERMANENT PASTURE</u> (\$ per acre)	<u>WOODLAND</u> (\$ per acre)
Atlantic	440	220	88	22
Bergen	600	300	120	30
Burlington	280	140	56	14
Camden	500	250	100	25
Cape May	300	150	60	15
Cumberland	380	190	76	19
Essex	600	300	120	30
Gloucester	400	200	80	20
Hudson	600	300	120	30
Hunterdon	360	180	72	18
Mercer	380	190	76	19
Middlesex	400	200	80	20
Monmouth	400	200	80	20
Morris	400	200	80	20
Ocean	300	150	60	15
Passaic	600	300	120	30
Salem	280	140	56	14
Somerset	380	190	76	19
Sussex	300	150	60	15
Union	600	300	120	30
Warren	300	150	60	15

h. Class values in each county were adjusted in accordance with the ratings of the soil groups. (See Table 1)

FOOTNOTES

- 1/ Excludes poultry income and floriculture crops grown under glass. Farm Income from these sources does not result primarily from the productivity of the land.
- 2/ Excludes poultry expenses and floriculture expenses.
- 3/ Net income does not contain a payment for the farmer's own labor.
- 4/ The capitalization rate of 10 percent reflects the cost for borrowed money and a return for the farmer's own labor.
- 5/ Based on estimates of the Soils and Crops Department and Department of Agricultural Economics and Marketing, Cook College, Rutgers - The State University.

STATEMENT OF SIDNEY GLASER, DIRECTOR
OF THE DIVISION OF TAXATION
MADE BEFORE THE
JOINT APPROPRIATIONS COMMITTEE
NOVEMBER 25, 1975

My name is Sidney Glaser. I am Director of the Division of Taxation, Department of the Treasury and make this statement in response to a request for comments on Senate Bills 1144, 935, and 3349. My remarks will be confined to observations regarding these bills.

1. SENATE BILL 1144

This bill would amend the Farmland Assessment Act, P.L. 1964, c. 48, N.J.S.A. 54:4-23.1 et seq. by requiring gross sales to have averaged at least \$500 a year plus an average of \$10 per acre for each acre over five acres during the two year period immediately preceding the tax year in issue. The deletion of the five acre requirement on page 1, sec. 1, line 3 would, in my opinion, be unconstitutional in view of the requirement in Art. VIII, Sec. 1, par. 1(b) of the New Jersey State Constitution, that the acreage for farmland qualification cannot be less than five acres in area. Although it may be argued that the five acres requirement still remains by implication, I do not believe that the deletion of the requirement is in the best interest of administration and should be restored to avoid any confusion in this respect.

The amendment would increase the gross sales requirement where the acreage is in excess of five acres from an average of \$5.00 per acre per year to \$10 per acre. In my opinion, this provision would tighten up requirements and would appear to be desirable.

However, the deletion of the fact that the \$500 a year requirement may be anticipated where there is clear evidence of anticipated yearly gross sales to at least \$500 within a reasonable period of time will cause confusion and will result in a loss of exemption for many farmers. Such anticipation is essential, particularly where the crop will be sold at a subsequent time. Further, anticipated gross sales provision provides relief for insect and disease damage and crop failures, permits a beginner-farmer to obtain the benefit of the act until his farm products reach a saleable income-producing age.

Present law provides that the minimum requirement in the case of woodland and wetland, the average shall be 50¢ per acre on the area above five acres. The amendment would provide that where the principal business is farming and the area consists of 100 acres or more which qualify under the act, woodlands and wetlands shall be assessed and taxed as farmland but not in excess of 20% of the land which qualifies under the act. This provision is an effort to establish a statutory percentage of woodlands and wetlands essential to the farm. The provision is desirable for the reason that under present law there appears to be no limitation as to the amount of woodland which would receive farmland exemption.

However, on page 2, sec. 1, line 33, the 20% figure, although presumably referring to a percentage of the farmland, should be clarified so that the 20% is an acreage figure rather than a valuation or assessment figure.

At page 2, sec. 1, lines 40 to 42, "woodlands" is defined to mean land supporting trees and woody vegetation producing forest products or reasonably contributing to the agricultural or horticultural use of the land. It would appear that the latter phrase is indefinite and would permit substantial woodlands to obtain the benefits of the farmland assessment act. I would suggest that at line 41, a change be made so that the word "or" be deleted and the word "and" be substituted and that the phrase following the word "and" on line 41 read "reasonably necessary for the agricultural or horticultural use of the land".

However, where the acreage is under 100 acres, there is no statutory maximum and the amount of woodland which could qualify would have to be determined in each individual case. It would seem that a similar percentage could be made applicable to acreage under 100 acres.

At page 2, sec. 2, lines 6 and 7, the amendment is not clear for the reason that farmland which does not qualify under the Farmland Assessment Act is taxed in the same manner as other property and, therefore, the rollback provisions would not apply. It is believed that the reason for this provision requires further clarification.

It is suggested that the paragraph proposed to be deleted on page 1, sec. 1, lines 24 to 28 be reinstated. I believe that this phraseology more accurately carries out the desired intent.

The change in the rollback period from two years to five years on page 2, sec. 2, lines 13 and 18 are, in my opinion, unconstitutional in view of the constitutional requirement that the rollback may not exceed two years (ART. VIII, sec. 1, par. 1(b)).

Page 3, sec. 3, line 2, the year "1975" should be changed to "1976" or "1977."

2. SENATE BILL 935

Under present law, in order for farmland to qualify under the act, the land must have produced an average of at least \$500 per year during the two year period immediately preceding the tax year or there is clear evidence of anticipated yearly gross sales and payments amounting to at least \$500 within a reasonable period of time. The amendment to this bill provides that in the case of woodland or wetland, the land shall be deemed to be actively devoted to agricultural or horticultural use when gross sales average at least 50¢ an acre with minimum sales of \$50 per year during the two year period immediately preceding the tax year or there is clear evidence of anticipated annual gross sales amounting to at least \$50 and an average of at least 50¢ per acre per year within a reasonable period of time.

This bill substantially reduces the requirement and would, undoubtedly, permit many acres of woodlands and wetlands to qualify.

It would seem that although the State should do as much as possible to encourage the use of farmland and the maintenance of farmland acreage, it appears that this bill, by relaxing the requirements, may add to greater speculation of such property.

In passing, it might be observed that every additional exemption and any relaxation of requirements adds to the burden of the other property owners in the particular municipality affected.

It is also suggested that page 2, sec. 2, line 2, be amended so that the amendment shall be applicable for the first time with respect to assessments in 1976 or 1977.

3. SENATE BILL 3349

This bill is an expansion of P.L. 1975, c. 104. It would authorize qualified municipalities to provide by general ordinance that the full and true value of improvements to commercial or industrial structures more than 20 years old shall be regarded as not increasing the value of such property for a five year period. In effect, this bill would provide for the same delayed assessment as is presently provided for residential dwellings where improvements are made.

There is one substantial difference. Under c. 104, P.L. 1975, there is a \$4,000 abatement limitation, whereas under the present bill there is no such limitation.

It would seem that the constitutional reference in sec. 1, par. f. should be to the recently enacted constitutional amendment ART. VIII, sec. 1, par. 6.

It may be observed that residential structures of less than five families would not qualify under this bill. Presumably, such residential structures would qualify under P.L. 1975, c. 104 which contains the \$4,000 limitation.

Presumably, where a structure is part residential and part commercial, the \$4,000 limitation on each unit would apply where there are less than five units. If in excess of five units, then there would be no limitation, either with respect to such dwelling units or the part of the building occupied for commercial purposes.

Again, it should be observed that abatements and exemptions increase the tax burden of other property owners in the municipality.

Inasmuch as all requisites for benefits under the bill must be met on or before October 1 of the pretax year, sec. 5 of the bill should be amended so that it shall be applicable with respect to assessments made for the tax year 1977 and thereafter.

It is suggested that the bill be amended so that the Director of the Division of Taxation be empowered to make rules and regulations applicable to the procedures with respect to the assessment administration of the matters dealt with under this bill.

I appreciate the opportunity to appear here today and express the foregoing views.

Thank you.

SIDNEY GLASER

Sidney Glaser
Director
Division of Taxation

SG:jal

Dated: November 25, 1975

JUN 27 1985



