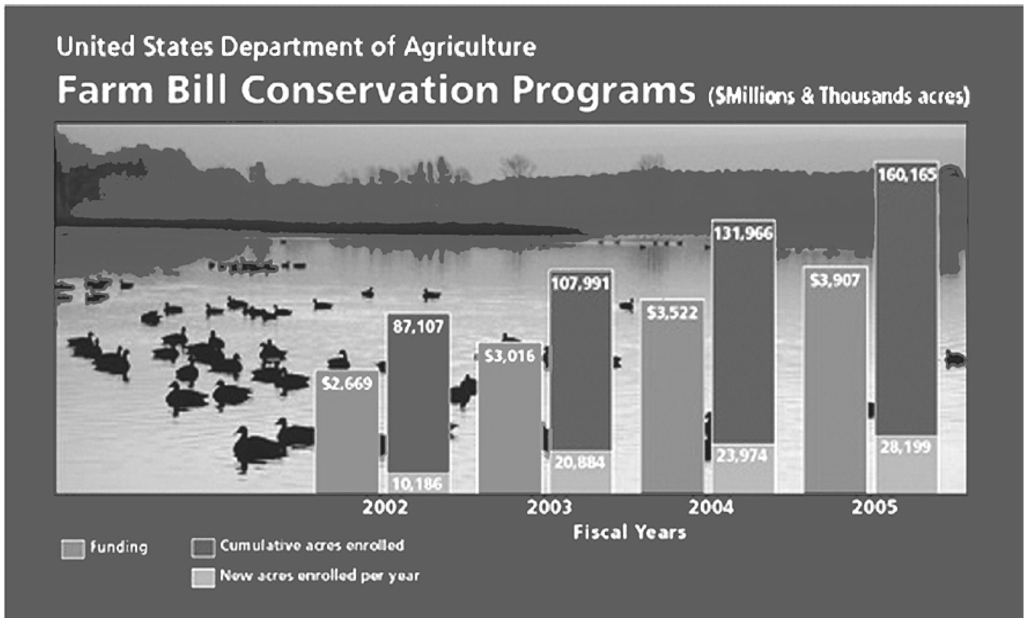
Chapter 4
FINANCIAL REWARDS: WHAT PROGRAMS COMPENSATE LANDOWNERS

Landowners look closely at the compensation offered by specific programs when considering whether enrollment makes sense for their particular circumstances. This chapter concentrates on the financial aspects of program participation and describes the levels and basis of landowner compensation, whether in directly paid cash or in tax benefits.

Based on information provided by programs, the dollar amounts of landowner compensation are presented as averages, ranges, or other estimates by acre or other units. As an explanation of how compensation levels are determined, we also outline the formulas and calculations used by individual programs.



USDA-NRCS

First - how much money actually is available to agricultural landowners in California for participating in conservation programs?

CONSERVATION FUNDS AVAILABLE IN CALIFORNIA

Agricultural landowners in California have access to more than $400 million a year in economic benefits for enrolling in the several major conservation programs covered by this guide. This is a rough estimate based on the dollar amounts listed in Table 4-1 for individual compensatory programs. By far the largest part of this amount is the more than $300 million representing the estimated property tax savings received by farmers and ranchers who enroll their properties in the Williamson Act. (This $300 million-plus estimate does not include the $39 million annually that state government provides to county governments as partial reimbursement for revenue losses resulting from the property tax reductions.)

Direct cash payments, for participation in USDA programs and for purchase of development rights, are somewhat less in the aggregate. Funds for the purchase of development rights in California come from a number of different sources, as the table indicates. The direct cash payments made by agricultural easement programs mostly depend on annual congressional and state legislative appropriations, and also voter approval of bond issues in the case of California's Farmland Conservancy Program which funds easement purchases. These payments fluctuate year by year. For example, available state funds for the purchase of

Table 4-1. Approximate annual economic benefits in dollars available to California landowners for conserving agricultural land, by program (FY 2005 unless otherwise indicated)

Preferential taxation - Williamson Act programs	USDA cost-share Programs[1]	USDA Reserve Programs[1]	Acquisition of development rights – agric. easements
More than $300 million (*estimated property tax savings)*	EQIP - $44.8 million WHIP - $591,000 CSP - unknown	WRP - $12.9 million GRP - $1.3 million CRP - $4.6 million	California Farmland Conservancy Program - $12 million Federal Farmland and Ranchland Protection Program - $3 million Local and foundation sources - $20 million Landowner donations, tax benefits - $5 million
Total: more than $300 million *(does not include $39 million in annual state subventions to counties for partial payment of property tax losses)*	Total: $45 million +	Total: $18.8 million	Total: $40 million
Source: Estimates based on projections from 1989 report, *Land in the Balance: Williamson Act Costs, Benefits and Options*	Source: USDA programs	Source: USDA programs	Source: state and federal programs, estimates for other fund sources

[1]Initial allocations that could be increased later

agricultural easements will likely drop as revenues diminish from Proposition 40, the last approved bond issue (in 2002) for open space acquisitions. Revenues could rebound if another bond issue for this purpose is put on the statewide ballot in the near future and approved by voters. By contrast, federal funds for easement purchases will continue at a fairly stable and higher-than-before level through 2007, the implementation period for the 2002 Farm Bill that greatly increased funding for the USDA conservation programs.

PROPERTY TAX BENEFITS

Annual property tax benefits for landowners with agricultural parcels enrolled in the Williamson Act and the Farmland Security Zone (FSZ) programs are in the range of one to 30 dollars per acre. While seemingly not a substantial compensation, the amounts add up for larger parcels. These savings can also be an important offset to production expenses and are especially useful for operators with marginal agricultural income. The property tax benefit for an agricultural property represents the difference between its Proposition 13 or acquisition value (the level at which most California real estate is assessed for property tax purposes) and its typically reduced value for agricultural purposes. County assessors determine both values, according to a formula described in the text in the lower part of Table 4-2.

Table 4-2. Property tax benefits for Williamson Act/FSZ enrollment

Illustrative property tax savings by acre, from Proposition 13 values, for sample counties

County/ acquisition year[1]	Agricultural use/location	ENROLLED IN WILLIAMSON ACT		ENROLLED IN FSZ Estimated per acre saving (additional 35%)
		Estimated per acre saving[2]	Estimated per acre assessed valuation (ag use value)	
COLUSA 1976	Rice	$ 10	$ 1,600	$13
	Row crops	13	1,600	17
	Almonds	20	3,200	27
	Rangeland (hilly)	4	75	5
GLENN 1976	Row crops	$ 5	$ 1,169	$ 7
	Rice	No savings	1,461	5
	Rangeland	1	154	2
GLENN 2003	Row crops	20	1,196	27
	Rice	17	1,461	23
	Rangeland	4	154	6
MONTEREY 1976	Top vegetable ground/Salinas and Pajaro areas	savings for vegetable crops with high use value exceeding Proposition 13 values	$ 35,000 (market value)	$135
	Lesser vegetable ground/south county		10,000 (market value)	38
	Rangeland	15	$ 100	20
YOLO 2003	Row crops/ Class I soil	$ 23	$ 1,900	No parcels enrolled as of 2004
	Vineyards/ Clarksburg area	29	1,300	
	Rangeland/ Dunnigan area	15	154	
	Rangeland/ western hills	6	30	

[1]Year property was acquired by current owner, providing the basis for property tax payments.
[2]Based on property tax rate of .011 (1.1% per $100 assessed valuation).

Source: Estimates provided by county assessor offices.

Basis of benefits: Property tax reductions for an individual parcel, based on the difference between the typically higher Proposition 13 acquisition value and the typically lower agricultural use value, as determined by the county assessor.

For properties enrolled in the Standard Williamson Act program:

1. The Proposition 13 acquisition value is based on the property's assessed valuation for the year it was acquired (purchased) by the current owner, plus limited increases since that time. At the time of acquisition, the assessed valuation is equal to the full market value; future changes are limited to the annual 2 percent cap imposed by Proposition 13. Assessment of properties in the same ownership for longer periods thus are assessed at relatively low values. Properties held since before 1978, when Proposition 13 was passed by California voters, are based on the 1976-77 value.

2. To determine the Williamson Act agricultural use value, the county assessor estimates the property's rental income. This is then discounted by a "capitalization rate" formula that includes (a) the interest rate for U.S. bonds, (b) a risk factor reflecting location, physical characteristics, and crops; and (c) the current property tax rate (1% or slightly higher under Proposition 13). The result is the property's assessed valuation which is multiplied by the property tax rate to determine the actual taxes owed.

3. In cases of high value crops when the use value is higher than the Proposition 13 value, the lower value is used for determining the assessed valuation.

For properties enrolled in the Farmland Security Zone program:

The taxes owed are reduced by an additional 35% from the Standard Williamson Act level.

When approved by California voters in 1978, Proposition 13 greatly decreased the tax liabilities of all privately owned property in the state by replacing the traditional market value basis of taxation with limits on both the tax rate and assessed valuations. In effect, by lowering the tax bills for all types of property, this reduced but did not eliminate the economic benefits for farmland enrolled in the Williamson Act. Few properties were taken out of the program through nonrenewal or cancellation for this reason, although the reduced economic incentives may have limited new enrollments. A different consequence in later years, however, was an increase in the number of contracted parcels with agricultural use values exceeding the normal property tax level (now under Proposition 13), typically growing high value crops such as wine grapes and vegetables. In such cases, the lower Proposition 13 value rather than the higher Williamson Act value is applied for taxation purposes.

Partly to offer landowners an enhanced incentive correcting for the reduced benefits under Proposition 13, the California Legislature in 1998 passed the Farmland Security Zone (Super Williamson) program. Enrollment in FSZ gives landowners an additional 35 percent property reduction beyond the Standard Williamson Act benefit in return for longer, 20-year contracts.

Table 4-2 presents examples of property tax savings under both programs for different agricultural uses in four counties. These savings per acre are based on estimates provided by county assessors.

USDA CONSERVATION PAYMENTS

The cost-share and retirement programs administered by USDA provide different cash benefits to participating landowners. Table 4-3 details these payments.

Generally, the cost-share programs such as EQIP tie their payments to the costs of specific practices, with most landowners reimbursed for up to 50 percent of the total costs of projects outlined in their conservation management plans. ("Limited resource" and "beginning farmers" may receive higher percentages.) The California NRCS office prepares a detailed list of approved practices and their annual unit (per acre, linear foot, cubic yard, hours, etc.) cost which is adjusted every year.

Payments under the retirement programs (WRP, GRP, CRP) are for long-term agreements. They are either annual rental payments for agreements up to 15 years or one time cash disbursements for term (up to 30 years) and perpetual easements. The easement payments take into account parcel-specific characteristics, such as agricultural production value and soil quality. The retirement programs also have separate cost-share components with payments linked to specific practices, similar to EQIP.

EASEMENT PAYMENTS

The prices that landowners receive for selling their development rights are largely determined by the difference between the full-market and agricultural values of their properties, as determined by appraisals conducted by professional land appraisers. Location close to or in the direct path of urban growth generally boosts the market value, increasing the differential and thus the basic price. The price agreed to by a landowner and the organization acquiring the

Table 4-3. Landowner payments for participation in USDA conservation programs

Program	Basis of Compensation and Limitations	Average Payments to California Landowners, 2004
EQIP–Environmental Quality Incentives Program	Cost-share: For such practices as grassed waterways, filter strips, manure mgt. facilities, tail water pits, livestock water developments. Up to 50% for most practices, 90% for some. Incentive payments: Payments for up to 3 years to establish such practices as nutrient management, IPM, irrigation water mgt. Total payments: Limited to $450,000 per participant for all EQIP contracts during 2002 - 2007.	2,580 contracts covering 445,000 acres were newly funded, with payments per project between under $1,000 and over $100,000, depending on the conservation practices employed.
WHIP–Wildlife Habitat Initiatives Program	Cost-share: Up to 75% for implementing Wildlife Development Plan practices, including structural and land management measures.	31 projects were newly funded, with payments per project between $3,400 and $250,000
CSP–Conservation Security Program	A new program intended to reward landowners with high levels of conservation activity, with 3 types of payment. Base payments: 3 tiers of compensation according to degree of activity; 5%,10%, 15% of a rental rate set by USDA. Cost-share: Up to 50% for new or maintained mgt, vegetative, and land-based structural practices. Enhanced payments: For multiple conservation practices, addressing local conservation concerns, participation in on-farm research or pilot projects, or certain other activities. Total payments: Limited to $20,000, $35,000, and $45,000, respectively, for the three tiers.	The program in California begins in FY 2005 in 5 watersheds.
WRP–Wetlands Reserve Program	Retirement payments: For permanent easements, the lowest of ag value, established payment cap ($2,500 per acre), or landowner offer. For 30-year easements, 75% of permanent easement payment. Cost-share: 75% of restoration costs, 100% in the case of a permanent easement.	Average of $1,775 per acre ($450-2,000 range) for 22 permanent easements totaling 8,677 acres.
CRP–Conservation Reserve Program	Retirement payments: Annual rental payments for 10-year agreements, based on soil productivity and dryland cash rent. Cost-share: Up to 50% of costs of establishing cover. Maintenance incentive payments: Up to $5 per acre for certain maintenance work.	Annual payments averaged $31.45 per acre representing 520 contracts on 147,583 acres.
GRP–Grasslands Reserve Program	Retirement payments: For permanent easements, fair market value of land less grazing value. For 30-year easements, 30% of fair market value less grazing value. For rental agreements, yearly payments up to 75% of the grazing value of the land. Cost-share: Up to 90% of restoration costs on lands never cultivated, up to 75% on restored grasslands.	$11-16 per acre in annual rental payments for four agreements on 4,130 acres. $471.56 per acre average in one-time payments for 2 30-acre easements covering 2,057 acres.

Source: Basis of Compensation information from NRCS published materials; data on average payments provided by the NRCS California state office.

easement is the result of negotiations, in which other factors may be considered. One-time cash payments are the usual compensation for selling an easement. But part of the total compensation may also come in income tax benefits as a result of a landowner donation of all or part of the easement value.

California agricultural landowners selling development rights in recent years have received cash payments ranging from less than $1,000 to more than $20,000 per acre. As Table 4-4 shows, cash payments through 2003 for the 75 easements in 15 counties acquired with state funds under the California Farmland Conservancy Program averaged $2,159 per acre. (The table does not include Sonoma County, the leading county in the state in agricultural easement transactions, where easement costs are paid entirely by a local sales tax.) The highest easement prices per acre were recorded for tree crop, row crop, and vine farms adjacent to urban areas in Alameda, Fresno, Madera, and San Joaquin counties.

State funds in almost all cases were matched by money from other sources, including federal and local funds. Landowner donations were part of the compensation arrangements for 51 of the 75 easements, averaging 23 percent of total easement value. Some easements are funded as mitigation for urban development that results in the loss of habitat or agricultural land.

Table 4-4. Easement Payments to Landowners

Average per acre payments - agricultural easements funded by the California Farmland Conservancy Program, 1997-2003

County Location	N easements	Average easement size in acres	Average cash payment per acre	N with landowner donations	Average donation value per acre	% of total easement value for easement parcels	Agricultural use
ALAMEDA	2	100	$20,067	1	$1,333	8%	vines
FRESNO	1	93	9,204	1	10,150	52	tree crops
MADERA	10	44	9,634	10	3,423	25	row crops, vines
MARIN	3	728	2,028	0			grazing
MERCED	6	158	1,804	0			tree crops, row crops
MONTEREY	21	211	3,960	17	664	16	row crops (vegetables)
SACRAMENTO	2	347	1,838	1	1,520	42	irrigated pasture, row crops, vines
SAN JOAQUIN	1	62	6,709	0			tree crops
SAN LUIS OBISPO	2	59	9,710	1	526	3	row crops
SANTA BARBARA	1	660	1,517	1	811	35	grazing
SANTA CLARA	2	228	5,781	0			row crops
SHASTA	1	1,450	1,350	0			row crops, grazing
SOLANO	5	803	1,869	3	371	54	row crops, dryland grain, tree crops, vines
SUTTER	5	670	906	5	90	6	rice
YOLO	13	244	888	11	354	30	row crops
15 COUNTY TOTALS/ AVERAGES	**75**	**294**	**$2,159**	**51**	**$554**	**23%**	

Source: California Farmland Conservancy Program.

Basis of payments: The difference between the full market and the agricultural values of the property, largely based on appraisals conducted by professional land appraisers. Major factors that tend to increase the difference and hence the price received by the landowner include: (1) location close to rapid or steady urban growth; (2) lower values of the agricultural commodities that are, or can be, grown on the property; (3) relatively severe restrictions on potential building sites proposed for the easement.