Whenever the budget slips into the red, ranchers begin to cast a wary eye toward Austin and the Legislature. In the past — such as when the state needed to increase funding for public schools — urban Democrats would begin to howl that agricultural property tax appraisals removed too much property value from the tax rolls and that corporations and the rich gamed the system.

They argued that the rules should be rewritten to tighten the requirements to allow only full-time ranchers and farmers to claim the property tax reduction. Rural legislators never let those arguments get any traction, but now that the state faces a deficit once again some ranchers want to know where agricultural property tax appraisal politics stand. So here is a roundup on this bread-and-butter issue.

The history of agricultural-use appraisals

Texas taxed ranch and farm land at its market value until the 1960s. When urban growth took hold in the state, a problem began to occur. Land development increased the value of land used for agricultural operations whether the ag producer intended to develop the land or not — especially land near urban areas or in fast-growing counties. In many cases, land values jumped dramatically and so did taxes.

Recognizing that increasing land values and correspondingly high property taxes would force many ranchers and farmers out of business, the voters amended Article VIII of the Constitution in 1966 to allow the first agricultural appraisal law — Section 1-d. Under Section 1-d agricultural land was taxed on its capacity to produce agricultural products, not its market value. This appraisal method resulted in significant tax savings for the property owner.

Section 1-d had problems, though. It protected only family-owned ranches and
farms and had other restrictive qualifiers that limited its usefulness, such as a requirement that the ag producer earn their income primarily from agriculture. In addition, in the early years of its implementation, county appraisal districts’ (CADs) procedures and methods for administering the agricultural-use appraisals varied widely. To fix the core problem — protecting agricultural land from rising market prices and property taxes — a less restrictive law was needed.

In 1978, voters once again amended the constitution, adding the Section 1-d-1 appraisal. Section 1-d-1 dropped the income and occupation tests, and opened eligibility to modern business structures, such as corporations and partnerships. Section 1-d-1 quickly became the predominate agricultural-use appraisal in Texas and commonly became known as the “open-space” exemption.

**Agricultural-use and open-space appraisals**

Two appraisal methods for agricultural property taxes currently exist in Texas — the Agricultural-Use Appraisal Section 1-d and the Open-Space Appraisal Section 1-d-1. Only full-time ranchers and farmers can utilize Section 1-d. Agriculture must be their primary occupation and provide the bulk of their income.

In addition, only individuals can utilize Section 1-d — corporations and partnerships don’t qualify. Under Section 1-d, both the land and the landowner must qualify for the tax reduction. The land must have been used for agricultural purposes for three years preceding the application. Timber production does not qualify as an agricultural use of the land.

To utilize Section 1-d, the landowner must submit documentation proving their qualification to the CAD every year. Once approved, the county appraiser will appraise the property based on its capacity to produce agricultural products, not its market value.

The most commonly used ag-use appraisal is the Open-Space Appraisal Section 1-d-1. Only the land need qualify for the Section 1-d-1 appraisal. The landowner’s occupation and sources of income do not come into play. Corporations, partnerships and other business entities can use it. To qualify, the land must be used principally for agriculture to a degree considered normal for that area for at least 5 of the last 7 years, and the landowner must initially file the information needed to determine the validity of
Wildlife management-use appraisal

In 1995, Texas voters amended Article VIII, Section 1-d-1 of the Texas Constitution to allow productivity appraisal of land used to manage wildlife. House Bill 1358 implemented the amendment by adding wildlife management as an agricultural use of land, and including it in the Property Tax Code. The law became effective in 1997.

Many ag landowners take advantage of the Wildlife Management-Use appraisal.

Before land can receive wildlife management-use appraisal status, it must have been appraised and qualified as open-space land the year prior to application. The second requirement is that the land must be used to sustain breeding, migrating or wintering of a population of native wild animals.

Land may also qualify if it supports a breeding, migrating or wintering population. In other words, birds or other animals do not need to permanently reside on the land; they can simply migrate across it or use it seasonally.

The third requirement is that the wildlife population must be supported for a human use, such as food or recreation. Recreational uses can include hunting, photography, bird watching, hiking and other activities for pleasure or sport.

Enjoyment derived from land ownership and managing wildlife is also a qualifying recreational use. Habitat control, erosion control, predator control, providing supplemental water, providing supplemental food, providing shelter and making census counts are approved wildlife management activities. For land to qualify under Wildlife Management Use, the landowner must implement at least 3 of these 7 approved practices.

It is not an ag exemption

Many people call these special appraisal methods ag exemptions, but that is a misnomer that leads to misunderstanding and, often, outright animosity from urban property tax payers. Agricultural property in Texas does not receive an exemption from
taxation. Instead special appraisal methods are used to reduce the taxable value of the property to balance it against the land’s actual capacity to generate income from agricultural use.

Two valid reasons exist for the state to allow the use of ag special appraisal methods. First, urban sprawl and market forces can drive the true market value of land to a point that paying taxes on the full-market value of the land would make agricultural use of the land not commercially viable.

Since Texas agriculture generates about $20 billion in cash receipts and $100 billion in downstream economic benefit every year, and 1 in every 7 Texans works in an ag-related job, allowing commercial land valuations and ever-growing and insatiable school district budgets to choke the life out of ranchers and farmers makes little economic sense. Second, they help preserve open-space land.

A study by the Texas A&M Institute of Renewable Natural Resources found that from 1997 to 2007 more than 2 million acres of Texas ranches, farms and forestlands were converted to other uses, primarily due to population increases in the state’s 25 fastest-growing counties.

According to the study, for every 1,000 new residents in a county, about 149 acres of agricultural land is converted to a non-agricultural use. Ag special appraisals cannot stop this relentless tide of urban development, but do slow down its destruction of valuable agriculture land.

The environmental lobby

The environmental lobby supports both agricultural- and wildlife management-special appraisals for landowners. Ken Kramer, chapter director of the Lone Star Chapter of the Sierra Club, stating his organization’s position on the subject, said, “The Lone Star Chapter of the Sierra Club has supported and continues to support the open space and wildlife management tax breaks as important tools for maintaining open space, supporting wildlife protection, and helping to prevent fragmentation and development of land, changes that are detrimental to wildlife, water quality and land conservation.”

The open-space lands maintained by these tax reduction appraisals provide enormous environmental benefits. They offer food and shelter to wildlife, help control
flooding, protect watersheds and help maintain air quality. They absorb and filter wastewater and recharge groundwater.

**World and national food security**

Much of the world depends on U.S. food exports to feed its citizens. In effect, saving Texas ranch and farmland from development is an investment in safeguarding the nation’s food supply and the agricultural exports that help feed the world. As the world’s population increases and global agricultural markets open, it becomes more important to protect agricultural land from urban development for both economic and national security reasons.

**Agricultural land is vulnerable to developers**

The attributes that make land good for agricultural operations also make it attractive to developers. It tends to be flat, well drained and affordable. For this reason, the best agricultural land is sought by developers. Once developers fragment it and begin building, it is lost forever to food production.

Ag- and Wildlife Management-Use appraisals help keep this land engaged in agriculture for as long as possible.

**Ranchers are stewards of the land and rural communities**

Private citizens own practically all the land in Texas. These landowners determine the fate of their land. Developers turn land into housing subdivisions and shopping malls. Ranchers and farmers conserve scenic and cultural landscapes, plant crops that feed the population and help build and support communities in rural Texas, where the jobs they offer are especially needed. Endangering ranches and farms endangers these already struggling rural communities.

**Cost of community services**

Urban dwellers often complain that agriculture gets an unfair tax break on property valuation, that land should be put to its most economic use, and that turning agricultural land into developed land will lower property taxes for everyone by increasing
the tax base. These arguments appear valid until you look at the real property
contribution of agricultural land to the tax base, versus urban land and structures.

A 20-year study by the American Farmland Trust found that, while agricultural
land generated less revenue per acre than urban land, it required little public
infrastructure and fewer service resources, such as police, fire, and schools.

In fact, agricultural property owners pay much more in property taxes than they
get back in governmental services. For every dollar raised in property taxes on ranch or
farmland, the property owner receives $.37 back in public services. For every dollar
raised in property taxes on commercial and industrial land, these lands receive $.29 back
in public services. Residential properties receive $1.19 in public services for every $1
paid in property taxes.

Farm and ranch land, and commercial and industrial lands, are net payers into the
property tax system. On the other hand, residential property requires a vast infrastructure
to handle traffic problems, crime and ever-growing need for schools. It does not pay its
way and constantly seeks subsidies in the form of taxes on others to survive. This is the
core of the property tax conflict between the urbanite and the rancher.

The same research revealed that industrial property paid much more in property
taxes than it received in infrastructure and service resources. The answer was clear —
converting agricultural land to residential land will not balance urban budgets; to
accomplish that, residential communities need to attract industrial development.

The bottom line

Urban citizens critical of ag appraisal laws argue that they rob the state of about
$2 billion in property tax revenue needed primarily to fund schools. A quick look at the
numbers disputes this logic. Agriculture brings in more than $100 billion in economic
benefit to the state every year. That money helps all Texans by providing jobs for both
urban and rural citizens, lower food bills, and food security — a vital component of
national security.

Agriculture also helps conserve rural communities, provides hands-on work in
environmental preservation, fosters and protects native wildlife, and preserves open
spaces and the scenic views that make Texas such a beautiful state.
Agricultural-use appraisals fight the tendency of urban areas to force ag producers to subsidize city services.

Agricultural use special appraisals were needed in 1966; they are indispensable in 2010.

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