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Utah State University Agricultural Economist's Joint Seminar--1968

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Record of

UTAH STATE UNIVERSITY AGRICULTURAL ECONOMIST'S
JOINT SEMINAR -- 1968

1. Moroni Feed Company
2. Assessment of Farm Land in Utah

Edited by
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Economic Research Center
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Special appreciation is expressed to those who provided position papers or attended either of the meetings at the request of the Seminar Committee: Earl Graper, Donald Johnson, Leon Michalson, Morris Paying, And Luhm (State Senator), Vernon Larsen, and Rolf Christiansen.

Seminar Committee:
E. Clement
J. Anderson
A. Luhm - Chairman
INTRODUCTION AND ACKNOWLEDGEMENTS

This report is a condensation of transcriptions made of proceedings of two joint seminars held in 1968. During the course of the next two or three years, members of the seminar hope to consider a number of significant issues which are likely to have major impacts upon Utah farmers and ranchers. In this way important issues will be brought to the attention of a larger number of people and it is possible that viable policy alternatives may be uncovered.

The first of the summaries to follow details some of the reasons why the Moroni Feed Company has been able to help its individual members remain competitive in the national turkey market. Hopefully, some of the organizational and management skills of this Central Utah enterprise can be transferred to other Utah cooperatives and organizations.

The second seminar considers some of the issues associated with proposals for legislation to tax agricultural land on the basis of agricultural rather than market value.

Special appreciation is expressed to those who provided position papers or attended either of the meetings at the request of the Seminar Committee: Carol Draper, Donald Dobson, Leon Mickelson, Morris Taylor, Reed Bullen (State Senator), Vernon Israelsen, and Rondo Christensen.

Seminar Committee:
L. Clement
J. Andersen
A. LeBaron -- Chairman
Seminar Proceedings

March 27, 1968

Moroni Feed Company

The purpose of this seminar was to explore the characteristics of a successful farmer-owned cooperative and isolate, if possible, major criteria that can be applied by similar organizations. If the interrelationships of these factors could be pinpointed, the seminar proceedings would serve a useful purpose in helping to upgrade other cooperatives and serve as basic criteria for organizing and establishing new ones. In addition, serious students of purchasing, marketing, processing, and management of agricultural enterprises may find the conclusions of value as an example of successful business principles in practice.

The Moroni Feed Company is a farm cooperative recognized widely as one of the strongest in the nation. Situated at an economic disadvantage relative to its major cost item and markets, the cooperative is a heavy importer of raw ingredients and a significant exporter of finished products.

Why is this apparently economically disadvantaged business so successful? Why has this successful operation not been duplicated in other areas? What can be learned from its almost phenomenal development and applied to other agricultural enterprises? These were the central questions considered in the seminar.

Several factors which were considered to be of major importance to the success of the cooperative kept recurring throughout the discussion. Among these were: superior management ability acquired, development of a unique product, lack of agricultural alternatives to local people, and the fact
that the cooperative was organized during a period of a rising trend in the general economy which allowed significant product margins and capital accumulation.

However, only one of these factors is a result of actual operation; the other three were already established and available. The inference here is that it was purely by chance rather than design that the factors of production were brought together at the right time. The question now becomes one of whether these same factors can be brought together elsewhere by design rather than by chance. In other words, can superior management alone overcome the problems of an economically disadvantaged operation?

Resume of the Seminar Proceedings

Characteristics of the Cooperative

Economic Opportunity

The business entered the product market at precisely the right time. The general economy during the decade of its organization and establishment allowed sufficient margin for the new operation to build the necessary capital and establish itself as a mature industry.

Local Community

The entire community and local area supports the cooperative and its continued improvement. There are no better economic alternatives for the people, and maintainance of their identification with the area seems to be an important desire.
Management

The closely knit, well integrated, and university trained management is highly progressive. It circumvents economic disadvantages and is willing to accept new ideas and new methods.

Board of Directors - The board is small in number, enthusiastic, and active in production for the cooperative. It does not serve as a "rubber stamp" board.

Executive Committee - This committee is strong, small in number, composed of active producers, and extremely flexible. It can be called together on short notice, and fast methods have been developed for decision making. No major decision is made by managers without its consultation.

General Manager - The level of day-to-day operation is superior. The manager has strong individual characteristics, easy to work with, the ability to define key problems clearly, and does not view the company as a personal empire. He strives constantly to educate and train personnel for the perpetuation of the company and continuously studies markets and potential innovations. However, the manager's strong characteristics do not dominate the operation.

Markets

Management recognized the necessity of ready access to market. Therefore a relationship with a strong marketing organization was developed early. This relationship has been a major factor in keeping the company abreast of the latest technology. Management has been willing to conform to market specifications for its products. The cooperative specialized in a special sized turkey.
Raw Materials

Management also recognized that the major cost item had to be intensely controlled. As a result, the company installed and maintained its own bulk feed purchasing and compounding operation. This had a major effect on the cost-price differential and allowed more rapid capital accumulation. Production supplies were sold to members of the cooperative at market value. The members given a rebate at the end of the year according to net feed sale income. Considerable sophistication has been incorporated into the cooperative's purchasing procedures.

Membership

Management recognized the danger of unstable members who join when prices are up, but drop out when they are down. Therefore, membership has been limited from the beginning and a fluctuating number of association members has not been permitted. Members are confined to a limited area and are tightly controlled. "Weak" members are eliminated early, and there is no open membership.

Individual producers have considerable management and operational freedom. They are responsible, educated people who have been trained in the final product requirements. Producers are stable due partly to lack of economic alternatives. The cooperative's rebate policy eases discouragement when prices are down. Vertical integration of the cooperative insures that benefits accrue to the producers. All members must be producers, and new ones are financed by the cooperative while they learn the business and the cooperative learns about them.
Labor

Labor costs are relatively low due to the policy of holding rates down and requiring member participation in a production enterprise. As a result of liberal and intensive educational and public relations programs over the years, a trained and responsible labor pool is available, knowledgeable about production and market requirements.

Credit

Two factors contribute to an excellent credit position of the cooperative and membership: (1) the producers have substantial interest in land, and (2) cooperative policy has been to name both the producer and major creditor on its income distributions.

Conclusions

Successful Characteristics

1. The cooperative has been successful in minimizing competition, both in supplies of raw material and marketable product.

2. It is careful not to accumulate surpluses or excess inventories.

3. It has a substantial youth educational program in production and marketing.

4. It has an intensive program in the development and use of new and improved technology.

5. The cooperative has a minimum of "free" services to its members.

6. It is extremely flexible regarding potential opportunities in raw materials and product markets.
7. It maintains interest in a few significant and allied product lines over which it has knowledge and tight control.

8. It has developed a unique product for which it receives a premium price.

Criteria for Success

1. The general movement of the economy nationally and/or locally should be on the rise.

2. The margin between production costs and prices received should allow immediate capital accumulation.

3. The general attitude of the community from which direct support is required should be positive and enthusiastic. This follows from liberal and intensive educational and public relations programs.

4. Management must be progressive, willing to accept new ideas and methods, small in number and extremely flexible. Fast methods for decision making are essential.

5. The operation must recognize and conform to product market specifications and develop a unique or specialty product that commands a premium price.

6. Members should be of high quality, of close proximity geographically, stable in number, and have a substantial financial interest in the success of the operation.

7. Adequate capital and credit availability is essential at all times. Operating policy must protect and strengthen both.

8. For maximum economic advantage the location of the operation should be in close proximity to its product market and/or raw material supplies.
9. Ideally, voting members of boards of directors would be limited to active producers.
Seminar Proceedings
May 22, 1968

Assessment of Farmland in Utah

The purpose of the seminar was to outline the theory of taxation as it relates to agricultural use; to analyze the proposed state constitutional amendment regarding assessment of farmland; and to present a legislator's view of the proposed amendment.

In addition, the seminar was designed to provide background information and ample opportunity for professionals in the fields of economics, politics, and education to discuss the issues freely. Information accumulated during the seminar was then to be compiled and summarized in an effort to better inform the public concerning pros and cons of legislative action.

The Problem

Utah society has become aware of a problem concerning its present treatment of agricultural lands for taxing purposes. This problem has largely come about as a result of changes in values as well as in actual and potential uses of land over the past two decades. There has been a decided shift in residential, commercial, and industrial uses of land away from urban into suburban areas, demand for recreational areas has also increased. These factors tend to push up values and prices. Prices offered by developers and speculators are almost always higher than those justified for agricultural uses alone. These sales
of farm land for non-farm uses tend to increase the market value of all other land in the area.

This change in use and value is further aggravated by the fact that the application of public policy, represented in the State Constitution, has not been followed by most tax assessors. This historic policy says that all property must be taxed at 30 percent of its market value. Since this policy has not been followed generally, and land use and values have changed considerably over the years, inequities have arisen between agricultural land owners as well as between other types of land use.

Theory of Taxation and Agricultural Land

Dr. Vernon L. Israelsen

Government must have revenue to accomplish its social purposes. Taxation is a method by which this is provided. Therefore, any evaluation of a tax must be carried out in terms of social goals. Some of these goals might be: (a) to maximize freedom of choice consistent with the welfare of others; and (b) to attempt to optimize the standard of living for all, given the resources and productive techniques. Poverty alongside affluence in a democracy is unacceptable. Taxes, therefore, should be used to alleviate poverty or achieve certain redistribution of incomes in accordance with society's wishes.

To achieve such goals, tax systems are designed with certain characteristics: (a) a principle of neutrality is desired—the tax should not move resources too much; (b) an equitable distribution of the tax burden is desirable; and (c) the collection and enforcement costs should be low.
The incidence of residential property tax is assumed to be on the owner; whereas, under competitive conditions the agricultural tax may be viewed as a cost of production which can be passed on in the form of higher farm prices. Industrial and commercial property taxes are also assumed to be shiftable. The incidence of motor vehicle taxes, however, tends to fall at the point where they are imposed. This poses an important question related to the tax incidence.

Analysis of the Proposed Constitutional Amendment

Dr. Rondo A. Christensen

The Constitution states that property must be assessed at market value. The amendment proposed (if passed) would allow agricultural land to be assessed according to use, thereby legalizing actual practice and giving agricultural land preferential treatment.

The State Tax Commission, which has the responsibility of implementing constitutional provisions involving taxes, is currently trying to raise all assessment levels to at least 20 percent of market value. At the present time, agricultural land is assessed at about 10 percent. This means that if the Commission were successful, tax rates on farm land would double. Several studies indicate, however, that rates would more than double for farm land lying near cities and subject to residential and industrial development.

The preferential treatment as provided for in the amendment can be accomplished in four different ways: (1) plain preferential assessment, (2) tax deferral, (3) zoning and planning, and (4) easement or covenant. Justification for any of these rests on the assumption that
the property tax is equitable. However, actually, it may not be.

Note the following situations:

(1) Society relies heavily on the property tax for funds, some of which are used to service non-holders of real property.

(2) Mill levies tend to rise in the urban fringe attempting to cover increased costs of providing services.

(3) Assessment levels rise as prices of land rise.

In addition, studies show that farm operators are unable to shift taxes through higher product prices, as industry and commercial businesses can. This means that the incidence of the tax rests largely where it is imposed—on the land owner.

A Legislator's View of the Amendment

State Senator Reed Bullen

The cost of government has gone up at the local and state levels. Considerable effort has been made to get county assessors to bring assessments up to constitutional requirements and reduce mill levies a corresponding amount. Counties have resisted this effort, however, because of the uncertainties involved when faced with a constantly rising cost of government and need for revenues. Units of government are constantly looking for new sources of income, and presently the state is using all the various sources, except that of gambling. This means that traditional income sources are looked at often with the assessor at the focal point of pressure, with the government unit pushing rates up while the real property owner is trying to keep it down.
City interests own a considerable amount of peripheral farmland and urban power is strong. In addition, legislators do not, in general, favor the zoning principle and feel that Utah has a good tax system.

Everyone is now looking at ways of cutting government costs. One of these has to do with a metropolitan type of organization. So far we have not been able to implement such a plan because of uncertainties concerning the benefits. At present, the State faces a legal suit involving the classification of all property. This will go a long way towards settling matters.

- Some inefficiencies in land use might be alleviated through the use of zoning. Nevertheless, this method might still deprive some land of moving to its highest and best use.
- Zoning might be useful until some spread-upon time, then the public could recapture losses in taxation through a tax on capital gains at the time of transfer. Zoning might prevent leap-frogging just as well as would passage of the amendment.
- Passage of the amendment would likely increase assessment problems.
- Not all land owners feel the same pressures to hold or sell land. Leap-frogging is at least partially a consequence of one bargainor finding another willing to sell regardless of zoning.
- If the amendment is passed, a determination would have to be made of whether agricultural land subsequently sold at a price higher than assessed agricultural value could still be taxed. Another question to be settled is whether the owner would have to be the operator. The owner might not want to do that unless he has adequate capital and is waiting for suitable prices.
- The amendment does not necessarily prevent land from moving into its highest and best use. What it may do is make the transition less painful. For instance, it suggests the amendment would help to hold down the appearance of sub-division thereby making the transition.
- Do not own instances of vacant city lots which are assessed at low values, thereby raising the costs of holding them negligibly. If they
A Digest of the Discussion

The following section summarizes discussion highlights. Some statements have been omitted and all have been edited. They are presented in the general order in which they were made.

---Failure to assess at market rates might lead to inefficiencies in the transfer of land to higher uses.

---One of the state assessment plans, the so-called "roll-back" system, really limits alternatives to that of selling the land or holding it forever. Sale of the land would be contemplated only to the degree that the increase in land value from year to year exceeds accrued tax payments, otherwise the owner must hold.

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---Zoning might be used until some agreed-upon time, then the public could recapture losses in taxation through a tax on capital gains at the time of transfer. Zoning might prevent leap-frogging just as well as would passage of the amendment.

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---The amendment does not necessarily prevent land from moving into its highest and best use. What it may do is make the transition less painful. For instance, it appears the amendment would help to hold down the appearance of subdivisions thereby easing the transition.

---We see many instances of vacant city lots which are assessed at low values, thereby making the costs of holding them negligible. If they
were to be assessed at some reasonable figure in relation to their market value, they would be developed and leap-frogging within city bounds would be minimized.

---In many areas the assessed values are really twice that of what it would be if based on agricultural value. If one were to multiply that by four, due to the speculative increase in land prices, then some farmers would have to "throw in the towel" because they cannot farm and pay the higher property tax.

---Zoning and differential assessment protect individual farmers from market forces. On the other hand, if we allow taxes to rise, this will help transfer land to its most valuable use.

---From a legislator's standpoint, the personal trend may be subjected to higher taxes because a sub-division has been erected nearby. He may be out of business. This is all right if he chooses to go out voluntarily, but for legislators to put him out places us in a different position.

---If it does not "put him out," what happens is that his resources have been bid away from him.

---It depends on how one looks at it. Some do not want to go out and these are things which a man takes seriously. Legislators have to meet them from a practical standpoint because these people are neighbors and can put up a "sad story."

---In other words, we sacrifice efficiency for practicality.

---Still, there is a problem. The constitution calls for assessment in money values and the assessor must operate with money values. He does this by looking into what other land sells for. The problem is that this does not mean that if all land in the area were to be put on the market simultaneously that prices would be any where near that high. Thus, valuation according to scatter sales will force men to pay higher taxes.

---But this mixes up two problems. If everyone actually threw all of their land into the market simultaneously, this would be the same as saying that there is a change in demand from that currently existing where a few are obtaining higher prices. And with every change in demand we get a change in price, in this case a lowering of price. For example, some people will not move to areas where they can receive higher wages. To remain in place they must pay this difference in price. The farmer can likewise pay a price difference if he does not want to sell.

---The value placed on the land is inflated in the practical sense.
---It is possible that the private market does not happen to capture all the social factors involved. For example, society may believe that it needs a nice "green belt" and it is not willing to rely on the market. But it is up to those who advocate this change in assessment methods to show just exactly which kinds of social values are not getting incorporated into the private market values. In this way they can show why society or the legislature should stand back and prevent allocation of these resources by market processes.

---In a recent study conducted in Utah County for the Bureau of Public Roads, farmers continually stated that they were remaining on their lands because the appreciation of value exceeded net returns from agricultural production. Actually the market is pushing them out of agriculture. We should not introduce a tax structure which will interfere with such resource allocation. It is hard to pass legislation that takes care of all problems.

---It appears that people in rural counties are depending on this amendment to be of special value to them. But it does not appear that these are the people that would benefit at all. It is the farmers in the predominantly urban areas that would stand to benefit the most from this amendment. People in rural areas claim that assessors are using the high prices paid for certain recreational lands as a base for rating adjacent plots. These people can see what would happen to their farming operations if such valuations continue to be based on isolated land sales.

---A danger of such sales is that they are financed by out-of-state corporations (in many cases) and local capital will no longer control the land. They use these land purchases as tax write-offs. They are buying land all over the country at high prices, yet they make money from it, given the current tax structure.

---Uniform and accurate appraisals do not exist in the State. In Piute or Wayne Counties where the main source of revenue is from agriculture, the assessment value for agricultural use may go up. However, the fixed amount these counties need will not change extremely, therefore, the mill levies may be dropped. They should drop, but if they don't taxpayers should start looking to county commissioners.

---This compensating reduction in mill levies is what we would hope for, but in fact it does not happen. In any case, only about five percent of total property tax revenue is taken from agricultural lands.

---Which is easier, to assess at market values or agricultural values? How does one assess at agricultural values where a multitude of crops are being grown? The assessor does not know future prices or what the yield is going to be. Isn't this method difficult?
---Every county does it differently, every assessor does it differently. That is one of the difficulties. Nevertheless, there is an overriding desire to keep the control of assessments in local hands.

---Is it any easier to do it on a cash value basis?

---Sometimes there are observable market values. They may not be representative for a particular problem since not everything gets into the demand. Nevertheless, it can be said that it would be easier than assessing on an agricultural value basis. In other words, the value of a piece of land that has not been on the market in 50 to 75 years would have to be valued by comparable sales in the area. The difficulty is that some of these sales have no direct application at all because they reflect land purchases at extravagant prices. Thus, we get the situation in which such high prices are often associated with small parcels, and a small parcel selling for $2,000 an acre might possibly lead an assessor to use the same basis when evaluating a 160 acre farm. Suppose a man owns 40 acres exactly in the middle of an interchange on a proposed freeway. A hotel-motel-restaurant complex wants to buy ten acres. They offer $7,000 or $8,000 an acre but are not interested in the remainder of the land. Yet, assessors might base the value of the rest of the land on what the ten acres sold for.

---Surely no one would think that the rest of the 40 acres should be based on what the original ten acres sold for. One does not say that because this acre is worth $10,000 that another acre is also worth $10,000.

---That is the principle assessors are using. That is the problem. It is clear that this is just someone's arbitrary judgment. And such arbitrary techniques can be changed. The difficulty is that assessing on agricultural value might be even more arbitrary. I don't think so. Evidence of what the ground will produce can serve as a guide.

---When state people come to the county assessor's office, they take the number of sales which have accumulated and break them down according to categories. They form a ratio or percentage for land, one for buildings, and more for other things. These are the ratios their taxes are based upon. In Cache County no extreme cases have occurred since there are no freeways in the area. But there is a situation in Box Elder County where the freeway occupies part of the land and the remainder has been assessed on the basis of what the state paid for the occupied land. Many homes and buildings are being sold. These are all carpeted, have draperies, refrigerators, and all furnishings included in the sale price. Nevertheless, the final assessment does not come near to 20 percent of the fair market value (based on the sales price) unless all the furnishings and sale costs are left out for valuation purposes. If this is done, the assessment comes to about 20 percent of fair market value.

---Would classification of all properties require a constitutional amendment?
---There is some question about this. In my opinion it would. One idea is to freeze everything in the law for the present time. Then after the classifications are complete a constitutional amendment could be made if necessary. It's clear that something has to be done and eventually the legislature must come to grips with the situation. The legislature is concerned with the fact that assessors are being urged to assess at 30 percent. In fact, they must do this if the Constitution means anything. They haven't done it yet. If a case goes to the Supreme Court, the Court is going to say that everything must be at 30 percent - homes, farms, businesses, etc. It won't just hit the farmer; it will hit everyone, and it will hit each one hard.

---How much advantage does the farmer have who owns a home placed on land that is not really assessed at the same rate as if it were in an urban area?

---New homes are probably not underassessed much. What is farmed for agricultural purposes is taxed as such, and part of the farm used for residential purposes would be placed against a residential factor. Is the residential factor the same as it is in cities?

---No, the factor would be the same as the county's residential levy assessment. The same values are not placed on a home in the county because those living in cities get a larger number of services. In the city you must pay a city mill levy in addition to that of the county.

---A number of examples are available from the Orem area. In one instance a farmer growing a small amount of alfalfa who also had a little pasture paid taxes in 1966 on the basis of a $617 valuation. In 1967 the valuation jumped to $2,980. His taxes increased six-fold. The county commissioners lowered the valuation level. The case went to the district court. The problem of the court is not the value of the ground, the court issue is whether or not the county commissioners had the right to order devaluation after the State Tax Commission had raised it. This case is not yet decided. In another example, the 1966 valuation on a small farm is $311. After the Tax Commission placed their valuation, the amount had risen to $1,109.

---Do we know the market value in these examples?

---Any value that is placed on it is arbitrary value until the sale is actually made. When a small number of sales take place, we say that is the market value for a whole district, and we could not be more incorrect.

---This indicates that assessors are not using reasonable criteria in establishing a market value. The problem is not just whether one should tax land on the basis of market value or on the basis of agricultural use. The underlying problem is how do assessors make reasonable estimates of market value? Is the criteria for appraising available for them?
There is really not a criterion available, and it is difficult to establish one. This is why it hasn't been done. It's almost an impossible task.

As the situation now stands, we are going to have to do something or else let the court decide. Then we will be faced with the reverberations that come after a court decision is issued. There is the feeling growing among legislators that this is the thing to do. In other words, the whole thing will solve itself if we let the court decide and if we accept whatever comes. The assessors will then have to raise assessments to 30 percent and, hopefully, the various county commissioners will lower the mill levy. Then we'll have to hope that those who are assessed any damages will actually be paid, and that special arrangements to protect society's interest in the case of public utilities can be forthcoming.