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Medicaid and County Property Tax Levies on New York Farmland

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Introduction[1]

Changes in health care delivery and financing, along with shifting demographics, are reinventing health care institutions and market relationships in New York and throughout the United States. Many communities are struggling to provide health care services in ways that protect community economic interests and the health needs of local people. Local public officials, business interests, hospitals, and doctors in many communities are increasingly concerned about the capacity to provide quality products and services while delivering care at reasonable cost.

Among the growing concern over health care costs for New Yorkers are the implications of mandated local Medicaid expenditures, their impact on county government budgets, and subsequent pressure on the local property tax. The local property tax issue is addressed here with a specific focus on the implications of accelerating Medicaid expenditures on taxes paid by the owners of farm real estate. The objective is to better understand expected changes in farm real estate taxes as county legislative bodies deal with mandated increases in county Medicaid expenditures. To keep the analysis manageable, the discussion is confined to 7 New York counties thought to be representative of conditions across the State. To provide context and a broader perspective on a very complex and continually evolving public issue, a presentation of the analysis is preceded by a background section.

Background

Medicaid, the health care program for low-income families, the elderly, and persons with disabilities, is jointly paid for by the federal and state governments. States, in turn, make arrangements with local governments for funding the needed care. In New York State, Medicaid is a partnership between state and county governments. Funds raised by the State and funds raised by county governments are both used to purchase health and long-term care coverage for thousands of New Yorkers. This very critical program addresses the health needs of some the State's most vulnerable citizens.

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1 This inquiry was done in cooperation with the New York Farm Bureau, Glenmont, New York.

The basic funding structure for Medicaid has been in place since the mid-1960s. Debate over program cost and who adsorbs those costs is not new. However, the picture has shifted rapidly and the debate has greatly intensified in recent months. By early 2002, the national popular press was labeling the Medicaid program a “fiscal crisis”, and reporting that cost control efforts involving cutbacks in benefits to hospitals, nursing homes, and pharmacies were likely in many states. At this time it was clearly evident that changes in program benefits, growing case loads, and ever higher provider costs of care were working together to aggravate state and local budget shortfalls triggered by a nationwide recession. At the same time, a deepening budget gap at the federal level helped advance an even louder debate about the fundamentals of health care finance.

In January 2003, at the Bush Administration proposed to cap all federal Medicaid spending, along with providing some modest additional funds and programmatic discretion to states. In May 2003, Congress acted within the program’s current structure to temporarily increase the federal share of financial responsibility for the program as part of a broader measure to provide fiscal relief to states.

In New York State a very substantial budget gap at the state level is magnifying concerns with Medicaid funding arrangements and the trajectory of program costs. Some perspective on these concerns over budget and health care expense is essential. In 1980, the national average amount spent annually on each person for health care was $1,085 in current dollars (see Figure 1). This sum takes into account not only expenditures each year for personal care but also looks at public health services provided by government agencies at the federal, state, and local levels. By 1990, national expenses for health care increased from $245 billion to more than $695 billion, pushing per capita expense to well over $2,700. Total health expenditures amounted to 12 percent of US gross domestic product (GDP) in 1990. Outlays nearly doubled during the 1990 decade to more than $1.3 trillion and increased the health share of the Nation’s GDP to 13 percent. Projected increases during this decade are even more startling with more than a $4,000 per capita spending <u>increase</u> expected by the year 2010.

Figure 1. National Health Expenditures for the United States, selected years, 1980-2000 and 2010 projections

Year	Total Expenditures ($ Billions)	Per Capita Expenditures ($)	Expenditures as a Percent of GDP (%)
1980	245.8	1085	9
1990	695.6	2,736	12
2000	1311.1	4,762	13
2010	2637.4	8,795	Not available

Source: US Dept of Health and Human Services, Health Care Financing

Medicaid outlays are one key component of the health care cost spiral. These trend projections suggest that, nationally, Medicare expenditures will increase by more than 60 percent between 2004 and 2010. But simple extrapolation of trend can miss, and perhaps miss badly, if politics and policy intervene and arrangements for Medicaid finance are materially altered. Financial arrangements for Medicaid are very much in play in continuing discussions over program cost in New York State. At present, local (county) government Medicaid expenditures are growing rapidly in New York State. For example, a NYS Senate task force report released in December 2003 points out that "…….the Family Health Plus program, enacted by the State in 1999 and implemented in 2001 and 2002, has added significant costs to local government budgets. During calendar 2003, Family Health Plus has added almost $220 million to the Medicaid budgets of local governments". Shifts in financial obligations for Medicaid often mean that county governments are having to make some difficult trade-offs between meeting local needs for health care, on the one hand, and meeting non-Medicaid spending needs on the other. Funding structures what they are, this concentrates attention on property tax rates since elected county officials have little control over their Medicaid costs. Similarly, due to limited leverage over alternate revenue sources, meeting budget needs translates into sharper increases in property tax rates.

Not surprisingly, local governments across New York State are requesting relief from the costs of Medicaid programs and from other mandated programs as well. According to the above-mentioned NYS Senate Task Force Report, in 2003, 28 counties had to resort to property tax increases in excess of 10 percent, with an average increase for all counties of 12 percent. A similar result was reported in a statewide survey conducted by the New York State Association of Counties (see Table 1). Excruciating pressure on county budgets undoubtedly continues in 2004, as the Governor and the state legislature grapple with global funding issues. The NYS Senate, as noted above, contains recommendations that would lead to relief for counties and for beleaguered property owners. Similarly, the Governor's executive budget for 2004-05, just submitted in late January, recognizes the need for Medicaid relief for beleaguered county governments and local property taxpayers.

Farm Property Taxes and Medicaid

The focus of this report is on farm real estate and shifts in tax liabilities due to changes in Medicaid expenditures at the county level. The previous section has demonstrated that the situation for Medicaid and its position in the funding stream for county governments is very dynamic. Material changes in policy may be in the offing and, even without these, it is expected that the environment for funding Medicaid varies materially from county to county across the state. With these reservations in mind, we assembled data that allows inter-county comparisons of taxes paid for county purposes on farm property.

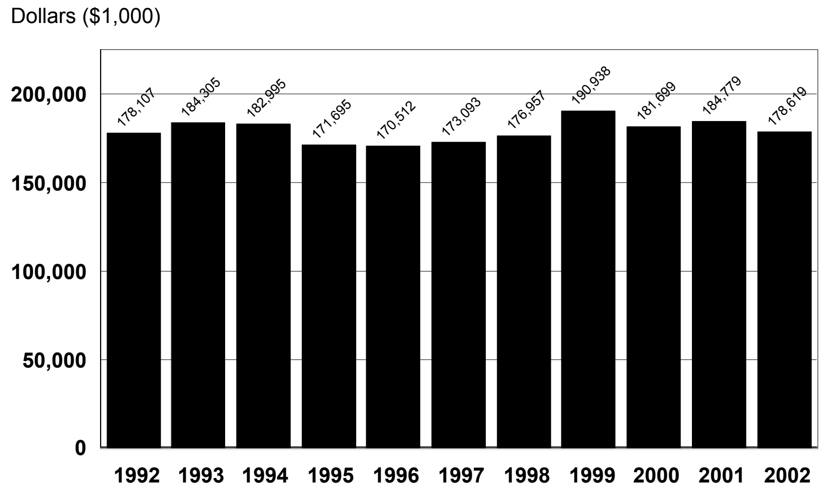
Table 1. Estimated county property tax levy for FY 2003 and change from previous year					
County	***2003 Tax Levy***	***% Change***	***County***	***2003 Tax Levy***	***% Change***
Albany	$44,096,227	23.8	Niagara	$64,074,667	0.0
Allegany	$14,994,686	6.6	Oneida	$53,112,192	15.6
Broome	$46,764,650	27.4	Onondaga	$158,805,333	6.3
Cattaraugus	$31,400,000	7.4	Ontario	$32,587,000	7.4
Cayuga	$24,084,219	16.5	Orange	$75,909,788	22.0
Chautauqua	$45,433,071	26.2	Orleans	$9,829,047	7.5
Chemung	$20,153,204	0.0	Oswego	$31,389,266	18.0
Chenango	$17,666,816	9.6	Otsego	$11,121,004	11.9
Clinton	$19,244,302	8.6	Putnam	$20,320,396	2.1
Columbia	$25,809,375	11.1	Rensselaer	$33,321,700	27.8
Cortland	$19,188,833	8.3	Rockland	$42,348,000	5.5
Delaware	$18,604,613	12.0	St. Lawrence	$29,096,519	5.2
Dutchess	$53,335,000	4.7	Saratoga	$29,211,729	9.8
Erie	$152,529,551	0.0	Schenectady	$50,441,176	11.9
Essex	$11,813,934	21.7	Schoharie	$11,601,218	8.7
Franklin	$11,482,181	9.2	Schuyler	$6,688,752	11.8
Fulton	$23,231,203	7.8	Seneca	$7,658,966	5.7
Genesee	$18,445,098	11.5	Steuben	$32,473,970	12.9
Greene	$14,251,245	12.7	Suffolk	$440,682,308	6.5
Hamilton	$3,809,595	14.5	Sullivan	$29,643,835	0.0
Herkimer	$14,460,000	5.6	Tioga	$13,691,619	11.8
Jefferson	$36,522,786	10.4	Tompkins	$25,113,783	17.8
Lewis	$7,931,120	9.0	Ulster	$38,929,103	19.7
Livingston	$17,916,585	13.5	Warren	$24,146,359	10.7
Madison	$22,941,772	8.7	Washington	$18,800,000	15.0
Monroe	$241,447,788	2.5	Wayne	$30,114,328	5.0
Montgomery	$23,300,642	23.6	Westchester	$403,401,762	14.9
Nassau	$738,711,111	19.9	Wyoming	$8,673,511	5.0
			Yates	$10,185,535	5.5

Source: NYS Association of Counties.

As a point of departure, it would be preferable to have a very explicit picture of the property tax exposure incurred by owners of agricultural real estate. Unfortunately, no single data source exists for this purpose. Separate state agencies track the taxable value of farm real estate (NYS Office of Real Property Tax Services), on one hand, while another agency (NYS Comptroller) tracks the size of annual tax levies on the other. For a general picture here, we refer to data published by the US Department of Agriculture. The USDA makes annual state-level estimates of total farm income and total farm expenditures for all New York State farms. Annual property taxes are treated as a farm expense. Indications of total tax levy from this data source are shown in Figure 2 for the period 1992 through

2002. According to USDA estimates, total taxes paid show no real trend during this 10-year interval, with total tax payments hovering in the vicinity of $175 million per year over this period. On a per acre basis, these estimates suggest that property taxes were in the $20-$24 range during the 1992-2002 period. Tax bills vary dramatically from county to county and from farm to farm. A 1996 study by the NYS Advisory Council on Agriculture reported per acre taxes ranging from $12 to $71 in the early 1990s.

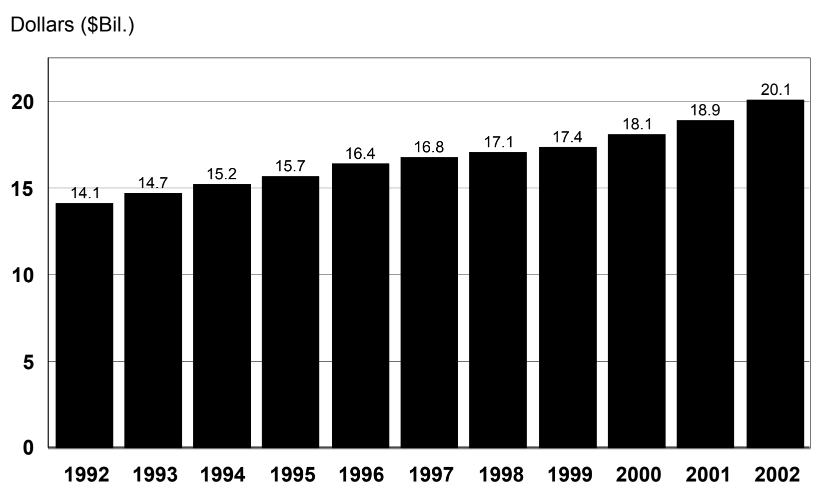
Figure 2. Total property tax levies on farm real estate, 1992-2002



Source: USDA-ERS

Total property taxes collected by local governments outside New York City increased systematically over this same time span (Figure 3). By 2002, taxes collected on real estate exceeded $20 billion per year. Increases from year to year have been particularly abrupt in the last three years as shown in Figure 4. These abrupt increases speak very directly to the increasing local concern over federal and state mandates and their impact on owners of taxable real property.

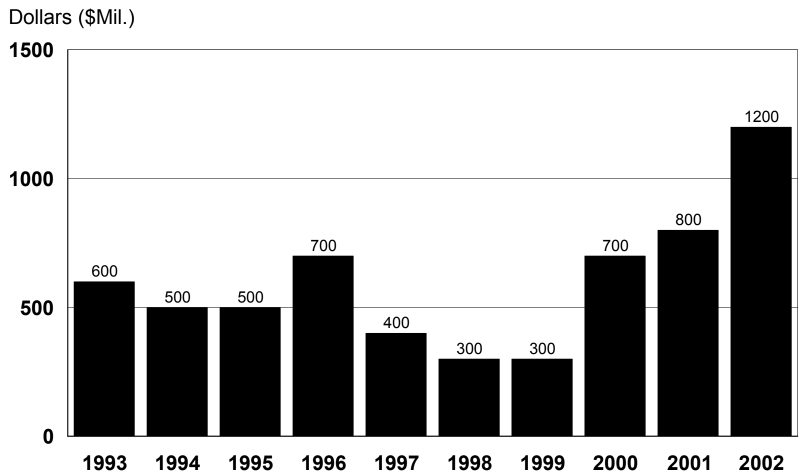
Figure 3. Total property tax levies, all local governments--excluding New York City, 1992-2002



Source: New York State Comptroller

To advance the discussion of county economy differentials in property tax liabilities and the ways that mandated Medicaid expenditures might

Figure 4. Change from previous year: total property tax levies, all local governments--excluding New York City, 1993-2002

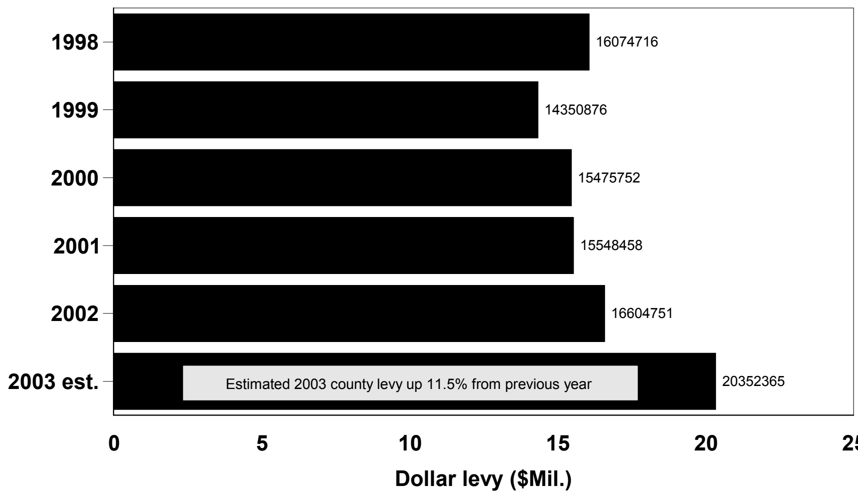


Source: New York State Comptroller

play into the tax exposure for owners of farm real estate, we identified seven counties thought to be representative of the wider New York State situation. These counties were: Genesee; Madison; Orange; St. Lawrence; Suffolk; Tompkins; and Washington. Recent trends in county property tax levies for the interval 1990-2002 are shown for each county in Figures 5-11. Also shown is the estimated 2003 county property tax levy, based on the percentage increase in county levy published from survey data by the New York State Association of Counties (these percentage figures are reported in Table 1).

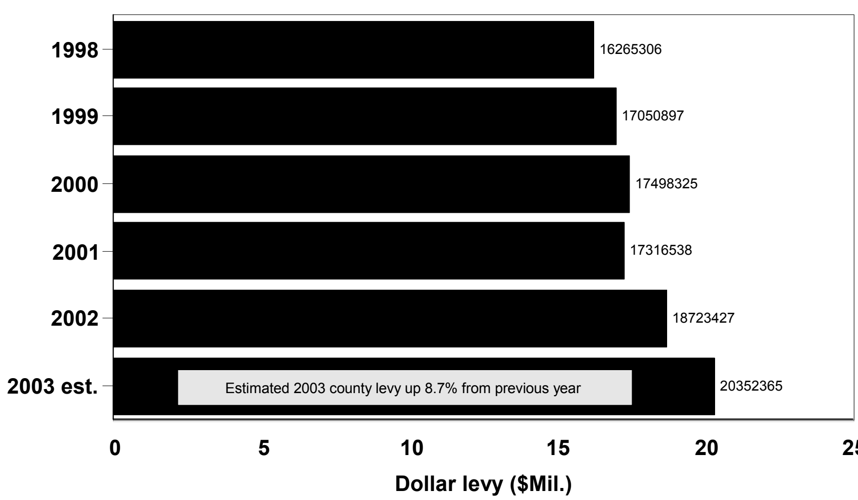
An estimate of county tax levies on a single class of property — farm real estate in this report — is much more problematic. As noted above, no single agency tracks taxable property and tax levies for county purposes. Beyond this, public records, while meticulously maintained, do not always make use of a common set of definitions for property use. Farm real estate is a graphic example of problems with defining land use. Farm definitions most widely used in federal statistics turn on the market value of farm products sold. Today, as in years past, federal statistics define a farm as a place with sales of $1000 or more. Local property tax assessing officials, on the other hand, do not count farms nor do they make an accounting of farm sales. Rather, they maintain a list of assessed values for individual land parcels, with each parcel assigned to a use in accordance with a consistent set of property use definitions. Property falling into one or more assessing use definitions may or may not meet the federal standard for “farm” in any particular calendar year. And most New York farms contain multiple property tax parcels.

Figure 5. Genesee County: county property tax levies, 1998-2003



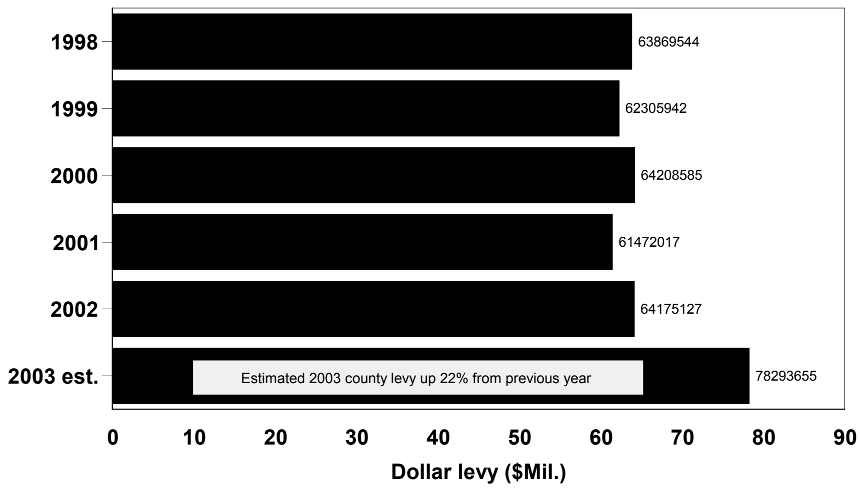
Source: New York State Comptroller & New York State Association of Counties

Figure 6. Madison County: county property tax levies, 1998-2003



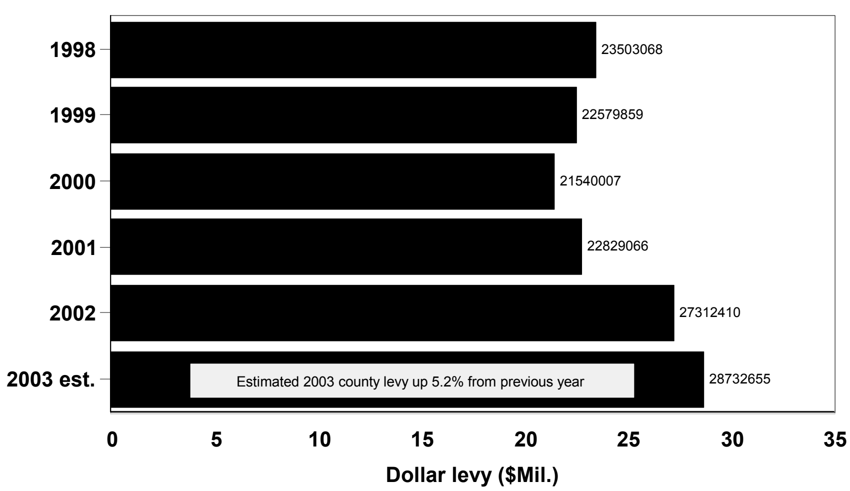
Source: New York State Comptroller & New York State Association of Counties

Figure 7. Orange County: county property tax levies, 1998-2003



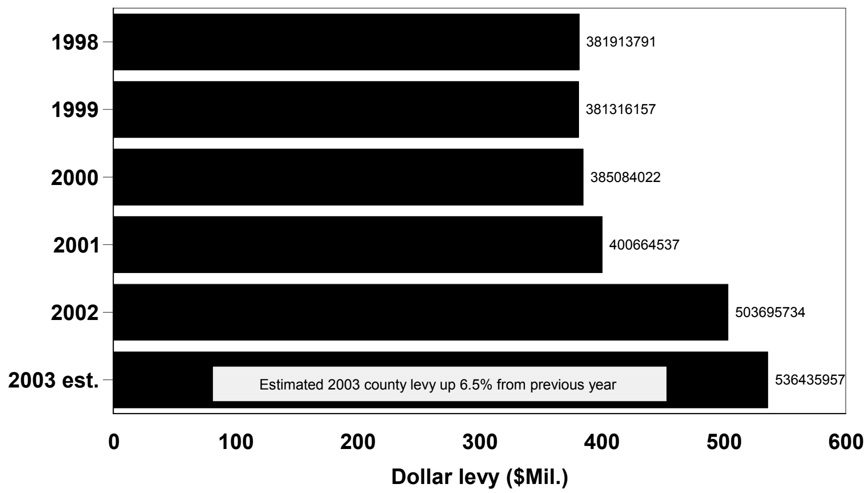
Source: New York State Comptroller & New York State Association of Counties

Figure 8. St. Lawrence County: county property tax levies, 1998-2003



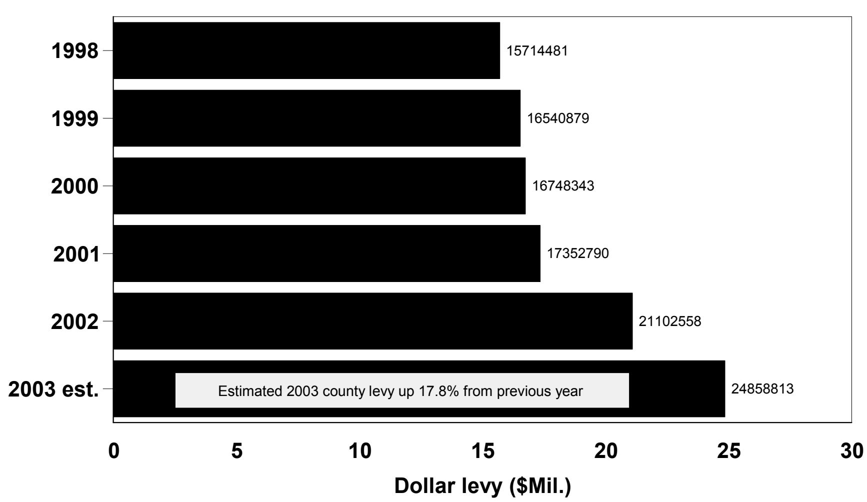
Source: New York State Comptroller & New York State Association of Counties

Figure 9. Suffolk County: county property tax levies, 1998-2003



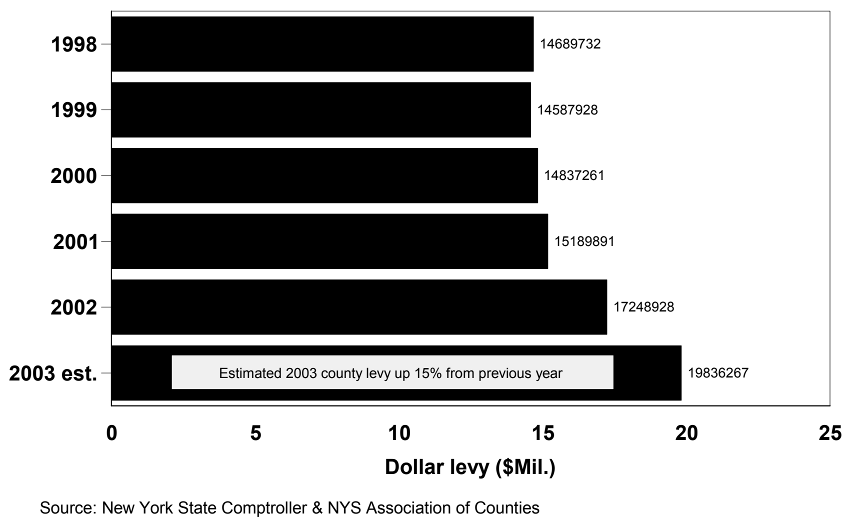
Source: New York State Comptroller & New York State Association of Counties

Figure 10. Tompkins County: county property tax levies, 1998-2003



Source: New York State Comptroller & New York State Association of Counties

Figure 11. Washington County: county property tax levies, 1998-2003



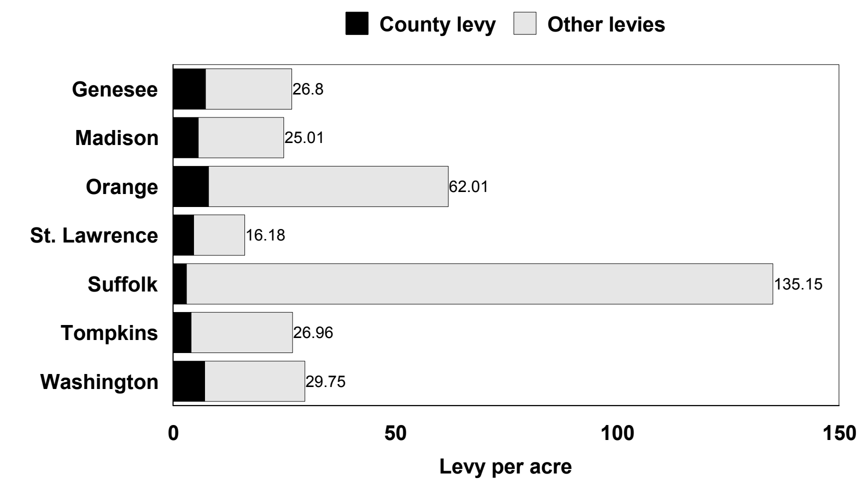
To overcome these definitional problems, an estimate of county property tax levies was made for farm acreage enrolled in New York's agricultural assessment program. Under article 25-AA of the Agriculture and Markets Law (Agricultural Districts Law), farm acreage which meets specified parcel size and sales thresholds can be enrolled in an agricultural assessment program. Enrolled acreage receives an assessment at agricultural rather than full taxable value. Not all farm acreage receives an agricultural assessment, either, because owners to do not apply for it each year or because the land parcel's assessed value is less than its agricultural value. Since county property tax levies can and do vary materially from town to town, enrolled acreage was correlated with town location, and the value of each farm parcel remaining taxable for the 2001 tax year was multiplied by the appropriate town tax rate for the county property tax levy. For example, Washington County nominal county tax rates, in dollars per $1,000 of full property value, ranged between about $6.50 and $8.50 in the 2002 tax year. After applying the appropriate county tax rate to each farm parcel, the results were summed across each tax parcel with agricultural assessment in the subject counties.[2]

Results are shown in Figure 12. To show the necessary contrast, Figure 12 also shows the total property tax levy for each of the seven subject counties. These data demonstrate that county tax levies probably only vary slightly in absolute dollar terms from county to county across New York State. For the seven counties examined, the estimated levy for county purposes in 2002 ranges between $3 and $8 per acre. Total tax levies are far more variable and largely trace to differentials in taxes levied by local school districts. Local schools take about 65 percent of total property taxes collected in New York

[2] It would be preferable to use acreage enrolled in agricultural assessment for each tax year between 1998 and 2002. This acreage varies slightly from year to year as parcels enter and exit the agricultural assessment program. However, the agricultural assessment program is mature with only small yearly changes in enrollment. Thus, it is not likely that net program acreage varied materially over the five-year interval 1998-2002.

State each year. Considering all levies — county, town, city/village, and school district — we estimate that total tax levies vary between $16 and $135 per farm acre in the seven subject counties.

Figure 12. Average per acre property taxes levied on acreage with agricultural assessment, selected counties, 2002



Source: Derived from unpublished data obtained from the Office of Real Property Tax Services (ORPS) and data published by the New York State Comptroller

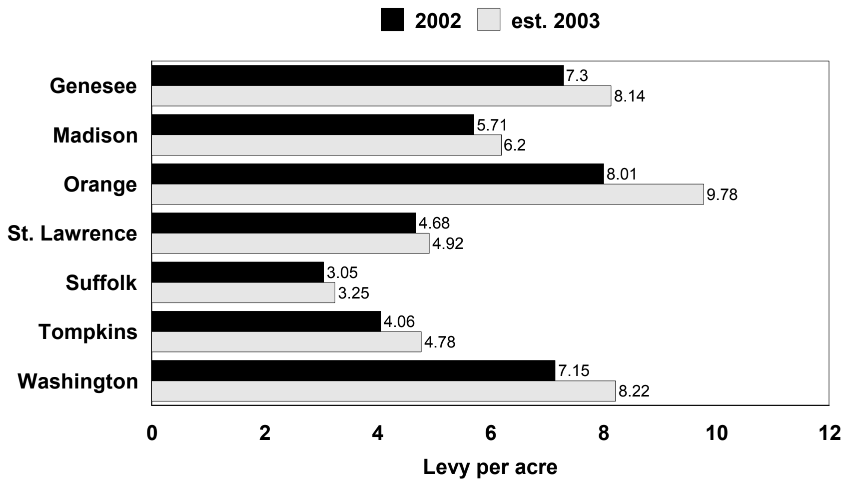
Some general indications of the impact of accelerating county levies, whether driven by Medicaid or not, are shown in Figure 13 by comparing an estimate of the 2002 tax levy with an estimate of the per acre 2003 property tax levy. The estimate makes use of the percentage increase in levy reported in Table 1. Results show that marginal increases in county levies range between $.20 per acre to about $1.75 per acre. It is impossible to know with certainty if these yearly expected changes in tax liabilities will persist in fiscal 2004 and beyond. This will depend on the overall financial picture in each county and shifts in county Medicaid obligations.

Discussion

The property tax In New York is a bellwether source of funds for locally financed public goods and services. There is general agreement that these services are needed to meet basic social needs and maintain a satisfactory quality of life for New Yorkers. But developments in recent months, including growing concern over state/federal funding mandates, have rekindled a debate over just how service costs are shared among levels of government. It is in this economic and political environment that questions are being asked about what impact recent pressure on county budgets is having on farm real estate. The analysis presented here adds perspective by providing updated estimates of per acre property tax levies in seven New York counties.

An even wider context is useful. The New York legislature has been sensitive to concerns like these in the farm community for several years. Several provisions of the Real Property Tax Law afford farmland

Figure 13. Estimated average per acre increase in county property tax levy on acreage with agricultural assessment, selected counties, 2002-2003



Source: Derived from unpublished data obtained from the Office of Real Property Tax Services (ORPS) and data published by the New York State Comptroller

owners some protection from the local property tax. Farm buildings and structures may qualify for property tax benefits under Real Property Tax Law Sections 483, 483-a, 483-b, and 483-c. The most significant of these is a 10-year exemption on new farm structures. This exemption dates to 1969 and counteracts any disincentives that property taxes exert on decisions to invest in farm real estate improvements. These types of investments are pivotal in New York State, where fluid milk and high-value crop production require constant and large inflows of investment capital.

Farmland owners also benefit from a 1971 provision in the Agricultural Markets Law Art. 25-AA (Agricultural Districts) allows qualifying landowners to receive an agricultural rather than full value assessment on farmland. Finally, beginning in 1996, qualifying farmers can apply for the Farmers School Tax Credit, which provides for a refundable income tax credit for a portion of the property taxes levied by local school districts. This program is critically important for the New York farm community because local school districts take about 65 percent of all property tax levies statewide.

Yet, as this analysis shows, exemptions, reduced assessments, and property tax credits do not fully shield farmland owners from larger property tax bills. Estimates made here suggest that, for the seven counties examined, the estimated levy for county purposes in 2002 ranges between \$3 and \$8 per acre. Marginal increases in county levies between 2002 and 2003 ranged between \$.20 per acre and about \$1.75 per acre. It is impossible to know with certainty if these yearly expected increases in tax liabilities will be similar or dramatically higher in fiscal 2004. This will depend on the overall financial picture in each county and the steps county legislative bodies take to deal with shifts in county Medicaid obligations.

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