THE FINANCIAL IMPACT OF TOWN-WIDE CONSERVATION RESTRICTIONS TO THE MARION TOWN BUDGET

A Case Study Conducted at the Request of
The Board of Selectmen
Marion, Massachusetts

March 4, 1996

Prepared by: John Rockwell, Wetlands Specialist, and Sarah Wilkes, Open Space Intern, The Buzzards Bay Project, 2870 Cranberry highway, Wareham, MA 02538

The Buzzards Bay Project would like to acknowledge Kristen Leotti & Mark Robinson for their assistance with this document.

The Buzzards Bay Project is a National Estuary Program jointly administered by Massachusetts Executive Office of Environmental Affairs' Coastal Zone Management Office and the United States Environmental Protection Agency. The Project provides technical assistance to Buzzards Bay area towns in their efforts to improve water quality in Buzzards Bay.

Summary

The Marion Board of Selectmen requested that a study be done to assess the financial impact to the town budget if all remaining vacant land in the town was placed under permanent conservation restrictions. The Buzzards Bay Project investigated two scenarios, in which either a 75% or an 85% tax reduction was granted for all parcels under conservation restrictions. The Board of Assessor's parcel information was used to calculate the total number of vacant lots in the town.

Due to current low town assessments on a large number of these parcels, nearly half of the vacant lots could be preserved at no cost to the town if they were placed in a permanent conservation restriction. Also identified (using a 75% tax reduction formula and an 85% tax reduction formula) were the number of acres of parcels that would not receive full tax reductions with a conservation restriction, as well as parcels that would receive a full tax reduction.

This study concludes that there would be little difference in lost revenue to the town between a 75% tax reduction scenario and an 85% tax reduction scenario. The low cost of conservation restrictions through reduced town tax revenue, when compared against the cost of municipal services on the same parcels if developed, will ultimately benefit the town of Marion and, over time, result in a net income gain.

Introduction

~~The Town of Marion is exploring the adoption of a Conservation Restriction Program that will guid~~e town review and acceptance of conservation restriction applications as well as define a standard property tax reduction formula for parcels under conservation restrictions (CRs). At their meeting on January 23, 1996, the Marion Board of Selectmen asked The Buzzards Bay Project (BBP) to study the financial impact to the town budget of town-wide CRs.

A conservation restriction is a voluntary agreement between a landowner and a government agency, the town Conservation Commission, or a private conservation organization. With a CR, landowners retain title to their land, but relinquish certain rights, such as the ability to develop their property in the future. Public access may or may not be allowed, depending on the landowner's wishes. Land under a CR is usually eligible for a reduction in property valuation since the fair market value of the property tends to be reduced with the addition of a CR. The town, like the landowner, also benefits when private land is placed under CR. Not only does the town benefit by obtaining open space without having to make an expensive purchase, but the property remains privately held and maintained without the need for additional town services while remaining on the tax rolls.

In conducting this study, the BBP examined two scenarios for tax reductions that would be received with a CR: a 75% tax reduction and an 85% tax reduction for parcels under a CR.

Methods

Determination of Area Available for Conservation Restriction Consideration

Using the Board of Assessor's information, the potential tax dollars lost from all vacant land was considered. Parcels studied ranged in size from .0023 to 300+ acres.

In addition to considering all vacant land, the study also included lots over 10 acres that had a house on them. To determine a pre-CR land value for the parcels with houses, the price of the house and house lot cost for that area were subtracted from the total assessed value. The lot size was then determined by subtracting the minimum lot size for that zoning district from the overall lot size. The resulting acres were then added to the total vacant acreage figure.

Not included in the total acreage amount were the potential CRs on land area that was in excess of the zoning requirements but less than 10 acres.

Based on the above assumptions, 5300 acres of vacant land were considered as part of this investigation. (Marion's total acreage is 9088.)

Determination of Assessed Value Reduction

The Board of Assessors has indicated that tax assessments will not be reduced for property with a current assessment of $1000 per acre or less. They have further indicated that no parcel's tax assessment would be lowered to a value less than $1,000 per acre, with or without CR.

Alternative Analysis of Services Provided to Building Lots
In addition to determining the cost of CRs due to lost revenue, this study investigated the cost of providing services to the existing smaller (less than 3 acre) lots. Several assumptions were made to determine the value of the lots in a built-out condition and the cost of town services delivered to these lots.

Based on input from a Marion real estate agent, it was assumed that houses constructed on a building lot would have twice the value of the lot. This study further assumed that houses in Marion would have a minimum value of $50,000. Since town service fees are based on the cost of the service provided, the cost of fee-based services and the income derived from them was considered to be equal, with no net gain or loss for the town. The major annual expenses considered were education ($5850 per student, 0.4 students per house) and non-fee based services ($1200 per house) [Source: Marion Finance Committee].

Data Management
All information obtained on potential area available for CR, assessed value and cost of town services was input into spreadsheet form using Lotus 1-2-3. Results were generated and analyzed according to study design. Dollar figures and acreage cited in this study have been rounded up to two significant figures.

Results

It is possible for Marion to gain 1800 acres of permanently protected open space at no cost through the use of CRs, regardless of the percent reduction in taxes. This cost scenario occurs because the lots have an assessed value of $1000 or less, with the town losing no revenue in these cases. Much of this land is already protected from the existing tax rate under the provisions of Chapter 61 and 61A, which provide property tax relief for forestry and agricultural land.

75% Tax Reduction for CRs
By providing a 75% tax reduction, the town provides only a partial discount for properties valued between $1000 and $4000 per acre. This is due to the Assessor's position that land values per acre would not be reduced below $1,000. Of the 5300 acres reviewed in this study (see Table 1), 1800 acres fall within this assessed value range of $1000-$4000 per acre. Town revenue lost for this land would be $9.90 per acre each year, for a total of $180,000 per year.

The remaining lots were examined using a standard regression formula ($r^2=0.34$) to determine if there was a correlation between lot size and assessed value per acre. It was determined that the assessment per acre for smaller lots was higher than for larger lots, and that the fulcrum for the regression curve existed at the 3 acre lot size. Accordingly, the remaining lots were divided into two groupings, one greater, the other less than 3 acres.

The total acreage of the parcels greater than 3 acres in size is 1200 acres. These parcels would

receive a full 75% discount in taxes which would result in an average of $120 per acre each year of lost revenue. Parcels less than 3 acres total 380 acres at an average loss of $630 per acre each year.

If all 5300 acres considered in this study were placed under conservation restrictions today, the total loss to the town would be $400,000 per year. With the 75% tax reduction scenario, this action would preserve 58% of the town as open space at an average loss of $77 per acre each year. If the town were to omit the lots that are less than 3 acres, 54% of the town, or 4900 acres, could be set aside for an average cost of $33 per acre each year.

Table 1: 75% Tax Reduction Formula for CRs

ACRES AVAILABLE	# Acres	% of Town	Cost to Town
at no loss (assessed below $1000/acre)	1800	20%	-0-
at a loss of $9.90/acre/year	1800	20%	$18,000
at a loss of $118/acre/year (> 3 acre parcels only)	1200	14%	$45,000
(Subtotal) *(at an average loss of $33/acre/year for all > 3 acre parcels)*	*(4900)*	*(54%)*	*$160,000*
at a loss of $629/acre/year (< 3 acre parcels only)	380	4%	$240,000
Total (at an average loss of $77/acre/year)	**5300**	**58%**	**$400,000**

85% Tax Reduction for CRs

Use of an 85% tax reduction produces only slightly different results than the 75% discount (see Table 2). Parcels not receiving a full tax discount range in assessed value from $1,000 to $6,700 an acre. These lots total 2200 acres at an average cost of $16 per acre each year in lost town revenue.

Of the remaining acreage, there are 900 acres on parcels greater than 3 acres. These parcels, if preserved by a CR, would result in an average loss of revenue of $160 per acre each year. On the 760 acres that comprise the lots less than 3 acres the lost revenue would be $750 per acre each year.

If all 5300 acres were under CRs with a 85% discount program, the total loss to the town would be over $450,000 per year (or $86 per acre per year). Under this scenario, 58% of Marion would be permanently preserved as open space. However, having CRs only on parcels greater than 3 acres

would greatly reduce this loss to $180,000, or $37 per acre per year, while still protecting almost the same amount (54%) of the town.

Table 2: 85% Tax Reduction Formula for CRs

ACRES AVAILABLE	# Acres	% of Town	Cost to Town
at no loss (assessed below $1000/acre)	1800	20%	-0-
at a loss of $16/acre/year	2200	23%	$35,000
at a loss of $164/acre/year (> 3 acre parcels only)	900	10%	$148,000
(Subtotal) *(at an average loss of $37/acre/year for all > 3 acre parcels)*	*(4900)*	*(54%)*	*$180,000*
at a loss of $748/acre/year (< 3 acre parcels only)	360	4%	$270,000
Total (at an average loss of $86/acre/year)	**5300**	**58%**	**$450,000**

Cost Comparison of CR (at 85%) Versus Development for Lots Less than Three Acres

According to the Assessor's records, there are 500 building lots of less than three acres in size. An analysis was conducted to determine the costs associated with developing these lots versus putting CRs on them. The cost of town services and the amount of tax revenues derived from developing these lots was compared to town revenue lost from a CR (at 85% of current assessed value of the vacant lots). The cost of delivering town services was subtracted from the tax revenue expected from the lots in their developed condition. (Town services were estimated at: education, $5850 per student, 0.4 students per house; and, non-fee based services, $1200 per house.)

Based on the Assessor's records, the total value of all 500 lots is $26 million. Using the current tax rate of $12.01 for each $1,000 in assessed value, the current town income for these lots is $320,000 per year. If CRs were granted for all lots, the lost revenue from these lots would be $270,000. However, this would still result in an annual income of $50,000 to the town for providing services to empty land.

Alternately, if each of these parcels were to be developed, their individual assessed value would increase, as would the town's income, to $1,000,000 per year. But there would be an additional cost to the town through increases in community service needs, resulting in an average of $3,540 per lot per year, or a total of approximately $1,800,000 annually. (Town services that are fee-based were not included in the cost or expense equations as they would cancel each other out.) Ultimately, the town's net loss from development of these lots is almost $800,000 a year.

When compared to the current status of the 500 lots, both the CR and the development scenarios result in a net loss for the town. *However, the cost of CRs to maintain land in an open condition will ultimately cost the town $490,000 less than (or 36% of) the cost of providing services to the developed lots* (see Table 3).

Table 3: Annual Cost Comparison of CR Versus Development for 500 Lots <3 Acres

500 Lots	*Town Loss*
With Development - Cost of Services less tax revenue received	$760,000
With CR	$270,000
==========	==========
Development Costs in excess of CR Cost	$490,000

Conclusion

Several conclusions can be made from this study.

It is possible for Marion to gain 1800 acres of permanently protected open space, at no cost, through the use of CRs, regardless of the percent reduction in taxes. This cost scenario occurs because the lots have an assessed value of $1000 or less, with the town losing no revenue in these cases. (Much of this land is already temporarily protected under Chapter 61 and 61A, but landowners would still reap the benefits from a permanent CR on their property.)

While CRs with an 85% tax reduction will cost Marion only slightly more than those with a 75% reduction, the income and estate tax benefit that accompany CRs may give landowners a greater incentive to preserve the conservation value of their land, and, ultimately, the Town of Marion.

When comparing the cost of town services and the amount of tax revenues derived from development versus town revenue lost from a CR (at 85% of current assessed value) for lots less than three acres in size, town losses are greater with development. With this development scenario, Marion would lose almost $500,000 per year.

This study indicates that CRs will make monetary sense for the Town of Marion and its residents. But CRs have other benefits. Land under restriction remains privately held and maintained by the land owner, which reduces town costs and liability. CRs cost less than development and do not require town maintenance. While town revenues are reduced somewhat with CRs, this does not outweigh the very important fact that CRs enable towns to preserve precious open space, the amount of which continues to dwindle every year. Once gone, it cannot be replaced.