

Agri-Business Community Work Group Minutes
February 9, 2015 – 4:30 pm
300 Monroe Avenue NW

Members Present: Commissioners Saalfeld (Chair), Jones, and Ponstein; Patty Birkholz, Rick Chapla, Bryan Harrison, Dr. Paul Isely, Ed Robinette, and Steve Wilson

Members Absent: Steve Grimm, Bert Bleke, Mimi Fritz, and Bryan Posthumus

Others Present: Assistant County Administrator Mary Swanson; Director of Equalization Matt Woolford; Deputy Director of Equalization Steve Rickers; Michigan Apple Committee member Mark Youngquist; Tree Fruit Commission member Steve Thome, Sparta Township Trustee Rob Steffens; and Senior Administrative Specialist Pam VanKeuren

News Media: None

I. Chair Saalfeld called the meeting to order at 4:30 pm.

II. **Approval of the January 12, 2015 Meeting Notes.**

The work group unanimously approved the January 12, 2015 meeting notes.

III. **Agricultural Land Valuation Presentation, Matt Woolford, Director of Equalization**

Mr. Woolford reviewed the equalized and taxable value for 2014 and the growth over time. The State Equalized Value (SEV) in 2014 was \$21.61 billion. The State Taxable Value (STV) of all combined classes in Kent County is roughly \$20.03 billion. The overall ratio of the STV to SEV is 94 % which is a 6 percent gap overall. The gap is smaller in 2014 than in 2013, which is an indication that property values are increasing. Mr. Woolford further reviewed a summary of agricultural classes of property for 2014 noting there are 2,559 parcels county-wide which represent 1 percent of the overall parcel count. The equalized value (SEV) for the agricultural class is \$327.5 million (roughly 2% of the overall county total). The taxable value (TV) of the agricultural class is \$202.5 million. Agriculturally classed property gets the biggest benefit from the limitation on taxable value from Proposal A; its TV is only valued at 61.8% of SEV. In contrast, commercial, industrial, and residential property TV is valued near 94% of SEV; a 33% advantage for agricultural property as a whole.

Mr. Saalfeld asked about the townships that do not have zoned agricultural land. Ms. Jones commented that there are known working farms in the townships that show there is no agricultural land. Mr. Woolford explained that if the properties are not classified as agriculture, they are not counted as such and therefore not valued as agriculture. He explained the use of a property may be different from how it is classified. Classification ties into zoning, highest and best use of the property, and highest return on the property. The classification of property is not necessarily tied into existing use and highest and best use for equalization purposes. Mr. Woolford reviewed a map of rates used per acre for agricultural land for determining agriculture values.

Mr. Woolford talked about who is responsible for valuing agriculture and what the role of the assessor and role of Equalization is. The classification of land is for equalization purposes only and is separate and distinct from the assessor function. The assessor is responsible for studying the market relative to the assessment role and value every property each year. Equalization studies where the market is and provides the assessor with a barometer indicating if the property is too high or too low. Equalization reviews all sales that occur, analyzes sales to extract residual land value, and determines current market rate for sales transactions. Equalization also does independent appraisal studies that involve reviewing the land and in some cases interviewing the farmers. This is in conjunction with the sale study to determine where value changes are needed. Equalization directs the assessor through these studies and the assessor is responsible for implementing any changes and applying them on a parcel basis. The local assessors often follow the lead of Equalization, based on its data, and they adjust rates accordingly. Statutorily, the local assessor can adjust rates to their discretion if trends warrant adjustments. The quality of the study of sales or appraisals determine where the changes are going to be made each year. The assessor is responsible for valuing the property.

Mr. Saalfeld asked if the agricultural rate is a price per acre. Mr. Woolford said yes and said it is based on the actual valuation. Mr. Saalfeld asked about farm land that is not zoned as agricultural and what affect that has on taxes. Mr. Woolford replied that there is a zoning variable that is considered in the agricultural classification, and the valuation is derived from the assessor and is based on certain factors.

Mr. Steffens asked if agricultural values stayed steady during the recession. Mr. Woolford replied that agriculture was stable and slightly increased throughout the years when prices were falling.

Mr. Harrison asked what the county, townships and the state can do to help preserve agriculture. Mr. Woolford stated that from an Equalization point of view, there are many tools and different approaches to preserving farmland. There are existing programs in place now to mitigate the tax burden on the farm community including PA116 and the exemption of uncapping of taxable value. There are many tools available that policy makers have at their disposal.

Mr. Chapla commented on the appraisal process versus an assessment process and asked what factors come into play outside of State law. Mr. Woolford responded that when Equalization determines the rate for an acre of land, many factors come into play including productivity and history of sales, and a common unit of comparison is dollars per acre. Michigan is a "highest and best use" state, so whatever value that the land itself will bring, is based on highest value and best use.

Ms. Birkholz asked if there is any influence by neighboring counties when determining land values. Mr. Woolford stated that they routinely study outlying county boundaries including Ottawa, Allegan, Newaygo, Muskegon and Montcalm and also school district boundaries which both can have an influence on land values. Mr. Rickers added that Equalization also follows sales transactions that occur over the last couple of years.

Mr. Harrison asked if it makes sense to have township assessing done on a township basis and if this is something that can be done on a county-wide basis. Mr. Woolford commented that the County could do county-wide assessing, and that this has been looked at several times, and each time it was not pursued. The scalability and maintaining local control to centralize the data and analysis without centralizing the function entirely at the county, regional, or state level would be beneficial to everyone. Trying to distribute the data as widely as possible is a collaborative effort in Kent County. Mr. Rickers added that there are a number units that share assessors. Mr. Saalfeld commented that the data collecting and sharing of information was an area that was reviewed in great lengths by the Kent County Collaboration Work Group in 2013, and is addressed in the Collaboration Study and final report that was issued by that Work Group.

Chair Saalfeld thanked Mr. Woolford and Mr. Rickers for their report.

IV. Discussion with Kent County Growers Mark Youngquist, Michigan Apple Committee; Steve Thome, Tree Fruit Commission; and Rob Steffens, Sparta Township Trustee

Chair Saalfeld introduced Mark Youngquist with the Michigan Apple Commission; Steve Thome, fruit grower and member of the Tree Fruit Commission; and Rob Steffens, fruit grower and Sparta Township Trustee. All are also growers on the Fruit Ridge region of the County.

Mr. Thome stated he is a 5th generation grower and his 160-acre family farm is located in the center of Alpine Township. 110 acres of his farm is apples. His product is sold to Jack Brown Produce who market, pack and sell the fruit for his farm. He also targets fresh markets. He does not specifically grow fruit to process. He noted that 65% of his fruit from last year has not been packed and he expects to have apples through July.

Mr. Ponstein asked if fresh fruit gets a higher rate than processed fruit. Mr. Thome said that the hope is to get a higher rate on fresh fruit. He said his biggest concern is a recent bumper crop of apples grown in Washington (approximately 130 million bushels compared to his 6 million). Between the fall of 2013 and into 2014, there were not many apples available in Michigan and this has hurt local farmers.

Mr. Chapla asked if there is still a market for Michigan apples. Mr. Youngquist commented that it is not an easy market and there are many factors that play into slowdowns including the market itself, supply and demand, and producing the perfect product. It is getting tougher to sell all the product while the cost of production is increasing. He said the life of a tree is about 20 years and the cost to reinvest in an established farm or cutting down and planting new is too costly and is becoming a huge challenge and is risky.

Mr. Robinette said that farms are planting more trees per acre with higher density because of the higher demand for return. Also, trees are being planted with higher density to get fruit earlier, but this comes with a cost as the cost to plant per acre is roughly \$18,000 plus labor. He added that the price to sell per acre for fruit tree land is approximately \$8500 per acre. Mr. Steffens added

that because of the depreciation that comes with a farm, new farmers are better off buying a farm with no trees and start with a blank slate.

Mr. Youngquist stated he is also a 5th generation farmer whose farm is located in Sparta Township, Tyrone Township and in Ottawa County. His farm consists of just under 200 acres of apples and he also grows beans and corn.

Mr. Steffens stated his farm is located in Sparta and Alpine Township and he has approximately 250 to 280 acres of apples and rents open ground that produces corn and beans. His fruit is marketed through Elite Apple and Michigan Apple Packers. He targets the fresh market and what does not sell he has processed. He agreed that one of the challenges that Michigan farmers are facing over the next few years is Washington producing an astronomical amount of fruit. Farmers in Michigan need newer varieties to survive and to stay profitable.

Mr. Robinette asked about labor and what it takes to pick a crop. Mr. Thome said he employs 20 pickers plus 8 support staff per season. Labor is a big problem because of immigration and obtaining competent workers that have skill to pick the apples at just the right time and under the right conditions. Mr. Youngquist added that labor and immigration issues have made things tougher. Agriculture is seasonal (about 8 weeks) and there is a small window of time needed to pick crops. It is tough to find a group of people willing to move and follow crops. Because of labor and immigration issues, he has increased his cost of labor and entered into an 8-week federal program that contracts with foreign workers. His crew came from Alamo, Mexico.

Ms. Jones asked about housing conditions and how housing is provided for work crews. Mr. Youngquist said that he provides the highest standards of living for the federal program; they are required to provide housing for any worker that comes from 60 miles away or farther. Housing is inspected by the State and by the U.S. Department of Labor.

Mr. Chapla stated that the Agri-business Community Work Group is trying to identify what it can do to protect and enhance agri-business and food processing in Kent County. Is there a role (bigger or lessor) that the County and/or other local units of government should be considerate of and/or influential?

Mr. Steffens stated that as a township trustee and former member of the planning commission, he is not sure what the County can do but feels the key is to establish a land base. He talked about the use of Renaissance Zones and tax abatements but these eventually run out. He also talked about value added processing and irrigation methods. He said that because the County's PDR program is not funded, passing a small millage to help preserve farms would ensure that agriculture would sustain itself.

Mr. Youngquist commented that he was not a fan of PDR when he first learned about it but now he is supportive of it because without it you can convert an apple orchard into housing but you can't convert housing into an apple orchard.

Mr. Robinette asked what barriers exist in terms of building a processing facility in Kent County. Mr. Steffens stated that water retention ponds can be one road block and also neighbor complaints can prolong the process.

Mr. Wilson asked what is next down the food chain and what steps are involved for the suppliers getting the product. Mr. Steffens explained that brokers are in contact with the store chains and obtain orders for the fruit. The fruit then gets packed, loaded on the truck and then shipped to the distribution center.

Mr. Ponstein asked if stores can request a certain kind of fruit to sell exclusively. Mr. Steffens said yes that does happen. Mr. Robinette stated that what is hurting the apple business in Michigan is not having an apple breeding program. Other states that have apple breeding programs are releasing "new" apples and are controlling the release and distribution of that fruit so no one else can buy it. In Michigan, growers are left out of this picture and the trend is moving toward club variety apples. Michigan State University has a peach breeding program and a cherry breeding program but does not have an apple breeding program. He would like to encourage MSU to engage in an apple breeding program.

Mr. Saalefld asked if this is a university-led program. He said this may be something that can be incorporated into the final report from this work group. Mr. Robinette said yes it has to be university lead because it can take a lifetime before one variety may be released. He said that MSU has the ability to partner with some other states that are doing it and hopes to see that happen. He added there are many factors that go into getting a good variety of what you need, especially when it comes to planting nursery trees. Ordering trees is a long process that requires calling ahead and reserving them and it is hard to predict what you want to plant in five years.

Mr. Youngquist commented that in this business it takes a lot of planning ahead and predicting to get what you want. There is a new generation of people coming into the agricultural business and there are many people in the business that you have to deal with which often times can be a road block. Farmers deal with every level of government along the way and there is no logic to some of the problems and solutions that farmers have to deal with. There are so many areas of farming that require government permits in order to do things. He suggested this group reach out and talk to some of the packing facilities to get their input on this too.

Mr. Steffens said that other road blocks encountered by farmers are road limits in the spring, weight restrictions, speed factors, drainage issues and tiling farms to support water coming from surrounding farms and neighbors. Many areas of farming requiring obtaining permits from the various levels of government and this takes time.

Ms. Jones asked Mr. Thome and Mr. Steffens if they have applied for the PDR Program. Both replied no. Mr. Steffens said he has thought about donating one of his farms for tax credit if there is one available and would like to eventually put his farm in the PDR program for sustainability but has not applied yet. He said that the PDR program, because of the political issue it has become, would encourage the County to pursue a small millage to support the PDR program.

Mr. Saalfeld asked if the County did have a tax-funded program, would it be better to have a tax credit or rebate program that could apply to everyone across the board versus having a program that may not always apply to everyone. If funds were available, more people would apply for and utilize it and the payment would be year after year versus a one-time payment. Mr. Steffens said he feels this could work and feels anything would help.

Ms. Birkholz stated that land that is put into a PDR program is a one-time payment and also means that the land can never be developed. Mr. Saalfeld talked about the PA 116 program which allows you to buy your way out. He said he believes that most people want to support agri-business in Kent County, and that there may be many different ways than just the one issue. The question is what is the best way to do it? The most efficient and effective way without it being controversial? This work group is in existence to flesh out these issues and come up with good alternatives and ideas.

Mr. Robinette said that because PDR is permanent it would not be good if your farm is your only asset. A tax credit would be one way to reduce the tax burden for the farmer while it is being farmed. Mr. Ponstein commented that PDR programs vary state by state and has its pros and cons. The philosophy behind having a PDR program is to ensure that farm land stays farm land and is not developed into housing. Mr. Robinette added that farms are unique in the sense that trees can't be moved, corn can't be moved, and the conditions have to be just right. Mr. Steffens noted that there are nine applicants in Sparta Township alone that have applied for PDR, so the desire is out there.

Mr. Youngquist commented that he appreciates what the County is doing. He said farms are run just like any other business and are very vulnerable. In addition to the land, it also boils down to the owner/operators and economics. Mr. Chapla added that there is also the supply chain aspect of it. The farming business is interdependent on a lot of people and making connections.

Chair Saalfeld thanked the presenters for their input and said that this discussion has been very helpful.

V. **Public Comment.** None.

VI. **Adjournment.** Chair Saalfeld adjourned the meeting at 6:12.

Next Meeting Date: Monday, March 2, 2015 at 4:30 p.m.