

LAND CONSERVATION ACT PROPERTIES (WILLIAMSON ACT)

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Land Conservation

The objectives of the California Land Conservation Act of 1965 are to protect agricultural lands for continued production of food and fiber, to protect very limited types of land devoted to open-space and recreational uses, and to prevent the splitting of large acreage parcels into small residential parcels. The act allows agricultural properties entered into contracts to be valued and assessed as agricultural economic units for a period of at least 10 years.

At the end of 2015, San Luis Obispo County had over 785,000 acres in Land Conservation Contracts, which is 36% of the total acreage in the county. The amount of land in San Luis Obispo County that is potentially eligible for the agricultural preserve program based on *open-space* or *recreational* uses is very small in comparison to land qualifying on the basis of *agricultural* uses. Therefore, this pamphlet focuses on land that qualifies based on agricultural use rather than open-space or recreational use.

What are land conservation contracts and how are they created?

A Land Conservation Contract, (also known as a Williamson Act Contract or Open Space Contract), is a contract entered into by the property owner and the County to restrict the land to agricultural uses. Land Conservation Contracts (hereafter referred to as LCCs) start out with either 10 or 20-year terms, depending on how close the property is located to urban areas. Once a contract has 10 years remaining on the term, it is automatically renewed each year so that there are always 10 years remaining.

In order to be eligible for an LCC, a property must first be in an *Agricultural Preserve*. To learn if a property is already in an existing Agricultural Preserve, or to find out the requirements for establishing an Agricultural Preserve, please call the County Planning and Building Department at (805) 781-5600.

What is the minimum size for eligibility?

Minimum acreage sizes for LCC eligibility vary depending on the productive potential of the soil. The more productive soils result in smaller minimum size requirements. In order to meet the minimum size requirement, two or more parcels may be combined if they are contiguous or if they are under the same ownership.

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Examples of minimum property size requirement for LCC eligibility are, in general:

10 acres for coastal valley vegetable lands

20 acres for orchards and vineyards

160 acres for dry farm

320 acres for grazing lands

How do I enter my property into a land conservation contract?

Please call the County Planning and Building Department to request an application. Their telephone number is (805) 781-5600. After the department's review, the application is presented to the Agricultural Preserve Review Committee, then to the Planning Commission, and finally to the County Board of Supervisors for approval.

It takes four to six months to complete the LCC application review process.

What is the primary advantage and disadvantage of placing my property into a land conservation contract?

The primary advantage for a property owner of entering into an LCC is a potential reduction in the taxable value and resulting reduction in property taxes. Parcels with new LCCs recorded by December 31st will begin to reflect changes in their taxable values starting with the fiscal tax year beginning the following July 1st. For example, if the LCC is recorded on December 30, 2020, the taxable change will appear on the 2021/2022 annual tax bill.

The primary disadvantage is that the landowner is prohibited from subdividing parcels into lots (or selling existing lots) that are smaller than the minimum parcel size designated in the LCC.

How is the property valued for property tax purposes?

Agricultural land under an LCC, and any *living improvements* (i.e. commercial orchards and vineyards) on that land, are valued annually based on the typical income that could be generated from agricultural uses. A formula is used to convert the potential future income generated by the land, trees and/or vines to a present value.

The taxable value for *non-living improvements* (e.g. housing, barns, irrigation systems, trellises, pumps, and fencing) is established when the property is originally acquired or when an improvement is completed (newly constructed). The non-living improvement value is then subject to an annual adjustment for inflation. The annual inflationary factor can not exceed a 2% increase per year (as required by Proposition 13).

If there is a residential dwelling on the property, a separate site value is established for the portion of land used for residential purposes. This *homesite* value is based on a comparison to small, residential acreage sales that occurred at the approximate time that the contract property was originally acquired. Homesite values are also subject to a maximum 2% annual inflationary factor increase each year.

Every year thereafter, the Assessor reviews the following three values for properties under LCCs, and the lowest of the three becomes the taxable value for that year.

1) Proposition 13 value (factored base year value): The fair market value, established at the time the property changes ownership. This “base year value” may increase up to a maximum of 2% per year. Any value for improvements (living and non-living) added to the property after it was originally acquired is added to the base year value and is also subject to a maximum increase of 2% per year.

2) Restricted value: The value based on the potential future income of the agricultural land and orchard and/or vineyard, added to the indexed base values (factored base year values) of the non-living improvements and homesites (if any).

3) Current fair market value (FMV): The price as of lien date (January 1) for which the property would be expected to sell in an open market transaction.

Sample comparison of the three values on a 160-acre vacant dry farm property purchased in 2011 for \$400,000. Comparing the values for the 2013/2014-tax year:

<u>Proposition 13</u>	<u>Restricted</u>	<u>FMV 1/1/13</u>
\$416,160 *	\$20,000	\$480,000

*\$400,000 value in 2011 factored upward at 2% per year to 2013

Taxable value would be \$20,000, based on the restricted value, the lowest of the three values.

Sample comparison for a 160-acre dry farm property improved with a residence. Property purchased in 2011 for \$600,000, of which \$200,000 was attributable to the house. One-acre homesites in the area were selling for \$125,000 in 2011. Comparing the values for the 2013/2014-tax year:

	<u>Proposition 13</u>	<u>Restricted</u>	<u>FMV 1/1/13</u>
Land	\$416,160	\$150,050 **	\$480,000
Improvements	\$208,080 *	\$208,080 *	\$220,000
Total	\$624,240	\$358,130	\$700,000

*\$200,000 house in 2011 factored upward at 2% per year as required by Proposition 13 to 2013.

**Includes \$125,000 homesite factored upward at 2% per year to 2013, plus \$20,000 restricted value of dry farm land.

Taxable value would be \$358,130, based on the restricted value, the lowest of the three values.

How might a land conservation contract be terminated?

There are three ways that an LCC may be terminated.

- 1) Non-renewal: This is the most common method for a landowner or the county to terminate an LCC. Once non-renewal is initiated by formal request from the landowner or the county, the countdown begins and the LCC expires 10 years after the year in which the non-renewal request is filed. The property taxes will usually increase during the LCC non-renewal period as the taxable value changes from the restricted value back to the Proposition 13 value. The total conversion in value occurs over the 10-year non-renewal period.

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- 2) Cancellation: This option requires the property owner's request. The request must be approved by the Board of Supervisors and, if approved, terminates the LCC immediately. However, cancellation can be approved only under extraordinary circumstances as provided in the California Land Conservation Act of 1965. In addition, there is a one-time penalty for cancellations amounting to 12½% of the current fair market value of the property.
- 3) Public Acquisition: LCC's become void for any property that has been purchased through public acquisition by a federal, state, or local government agency for necessary public uses and facilities.

If you have questions or concerns about the cancellation process please contact the County Planning and Building Department at (805) 781-5600.