

**REPORT OF THE
VIRGINIA DEPARTMENT OF FORESTRY**

**Study on the Provision
of Incentives to Preserve
Forest Land in the
Commonwealth of Virginia**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 3

**COMMONWEALTH OF VIRGINIA
RICHMOND
2005**

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December 29, 2004

**TO: The Honorable Mark R. Warner
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and

The General Assembly of Virginia

It is my privilege to present this report which has been prepared as a result of Senate Joint Resolution 75 of the 2004 General Assembly Session calling for a legislative study on "incentives to private landowners to hold and preserve their forestland."

This report documents a study conducted by the Board of Forestry whose role with regard to this Legislative Study was to: 1) review laws and programs of other states, localities, and agencies, 2) seek comments and recommendations from citizens, conservation groups, farm and forest associations, and forest industry.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carl E. Garrison, III".

Carl E. Garrison, III
State Forester

Senate Joint Resolution 75 Report

*Virginia Board of Forestry Study on the
Provision of Incentives to Private
Landowners to Hold and Preserve Their
Forestland*

*C. Harrell Turner, Chairman
Board of Forestry
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Preface

During the 2004 General Assembly, Senator Patricia Ticer, Fairfax, Virginia, introduced Senate Joint Resolution 75 (SJR 75) calling for a legislative study on ... “incentives to private landowners to hold and preserve their forestland” and charged the Virginia Board of Forestry (BOF), with staff assistance from the Virginia Department of Forestry, to conduct this study.

The Virginia Board of Forestry is composed of private citizens, forest consultants, and forest industry. This group is appointed by the Governor but is advisory to the State Forester. Their main purpose is to offer guidance on pertinent issues relating to the Mission and Vision of the Department of Forestry as well as other forest resource related issues. The BOF role with regard to this Legislative Study was to: 1) review laws and programs of other states, localities, and agencies, 2) seek comments and recommendations from citizens, conservation groups, farm and forest associations, and forest industry.

Eight public meetings were held across the Commonwealth and one focus group meeting. Over 230 citizens attended the public meetings and another 23 were invited and attended the focus group session. An additional 52 citizens contributed written comments through the agency website or by letter. The main question presented at the public meetings was, “What are the factors, concerns, and issues that affect your decision to preserve forestland?”

Responses fell into the following eight categories: incentives, estate taxation, property taxation, conservation easements, local ordinances, forest management and forestry programs, education, and the Department of Forestry itself. Three categories of findings were determined from the 8 public meetings and focus group: 1) “*Working Landscapes*”, 2) “*Landowner Incentives*”, and 3) “*Landowner Education*”. Six recommendations and five supporting statements are provided as results of this Legislative study.

The BOF recommends the following action take place: institute a uniform statewide land-use taxation program, increase funding for the Virginia Land Conservation Foundation to acquire forest conservation easements, create a Governor’s Commission on Forest Education and Outreach with the Secretary of Agriculture and Forestry as lead, fully fund the Reforestation of Timberlands (RT) Program, provide funding for the Department of Forestry to create six forest conservationist positions within the Department of Forestry and a further Legislative study to examine a voluntary, statewide, forestland protection program, study the impact of local ordinances on forestland management and conservation, and study the hardwood resource.

The BOF supports the following activities: support the Right to Practice Forestry law, support county level Purchase of Development Rights, support the results of the Forest Economic Summit, support the repeal of the state and federal inheritance tax, and support the current framework and structure of the Virginia Land Conservation Tax Credit Program.

The BOF and Department of Forestry wishes to acknowledge the work of Judy Burtner, Kathryn Burruss, and Walker Forehand on the public meetings, focus group facilitation, and research work.

Table of Contents

Background and Recommendations.....	1
Focus Group Session Summary.....	2
Supporting Statements and Recommendations.....	3
Major Focus Group Findings.....	4
Core Findings and Recommendations.....	5
Recommendations with Justification.....	6
Supporting Statements with Justification.....	11
Appendices.....	16
Appendix I – Senate Joint Resolution No. 75.....	17
Appendix II – Public Meeting Comments by Category.....	19
Appendix III – Focus Group Recommendations.....	22
Appendix IV – Research of Other State Programs/Incentives.....	28
Introduction.....	28
Property Taxation.....	33
Case Examples of State Programs.....	35

Executive Summary

During the 2004 General Assembly, Senator Patricia Ticer, Fairfax, Virginia, introduced Senate Joint Resolution 75 (SJR 75) calling for a legislative study on... “incentives to private landowners to hold and preserve their forest land” and charged the Virginia Board of Forestry (BOF) with this study responsibility. As a part of SJR 75, the Board of Forestry is directed to “seek comments and recommendations from citizens across Virginia”.

Toward this end, the Board of Forestry (BOF) conducted eight public meetings across the state during the last half of July, 2004. In addition, a focus group met with participants from conservation groups and land trusts as well as other agency staff to evaluate the public comment and refine the recommendations. From August through November, 2004, the BOF met to further refine the recommendations. These recommendations and supporting statements are based on the core belief that forest land preservation and economic viability are inextricably linked. The BOF defines recommendations as requiring Legislative action. The BOF defines supporting statements as those programs or activities that need to be maintained and/or improved. Following is the BOF Recommendations and Supporting Statements stemming from the SJR 75 study efforts:

Recommendations

1. Institute a uniform statewide use-value taxation program.
2. Increase funding for the Virginia Land Conservation Foundation to conserve forest land.
3. Create a Governor’s Commission on Forest Education and Outreach with the Secretary of Agriculture and Forestry as lead.
4. Fully fund the Reforestation of Timberlands (RT) Program.
5. Provide funding for the Department of Forestry to initially create six forest conservationist positions within the Agency.
6. Utilizing the Senate Joint Resolution 75 framework, extend this study to consider developing a voluntary, statewide “forestland protection” program, study the Right to Practice Forestry law including local ordinances and their impact, financial and otherwise, on the non-industrial, private landowner’s ability to manage their forestland and the hardwood resource. This further study will be for a period of one year.

Supporting Statements

1. Support the Right to Practice Forestry law.
2. Support the Purchase of Development Rights effort at the county level utilizing the Virginia Farmland Protection easement template.
3. Support the results of the Forest Economic Summit sponsored by the Secretariat of Commerce and Trade.
4. Support the repeal of state and federal inheritance tax associated with forestland preservation.
5. Support the current framework and payment structure of the Virginia Land Conservation Tax Credit Program.

Background and Recommendations

The long-term sustainability of our woodlands and working landscapes depend heavily on the working relationships between private non-industrial landowners, public officials, and the forestry community. Forest loss in Virginia is over 20,000 acres per year resulting in decreased landowner economic viability and returns on investment and reduced environmental benefits for the Commonwealth's citizens.

During the 2004 General Assembly, Senator Patricia Ticer, Fairfax, Virginia, introduced Senate Joint Resolution 75 (SJR 75) calling for a legislative study on ... "incentives to private landowners to hold and preserve their forestland" and charged the Virginia Board of Forestry (BOF) with this study responsibility. As a part of SJR 75, the Board of Forestry is directed to ... "seek comments and recommendations from citizens across Virginia".

Toward this end, the Board of Forestry (BOF) conducted eight public meetings across the state during the last half of July, 2004. The general locations and dates held are given below:

- Northern Valley: July 13
- Northern Virginia: July 14
- Southwest Virginia: July 20
- Roanoke: July 21
- Southside Virginia: July 22
- Tidewater: July 27
- Richmond: July 28
- Charlottesville: July 29

Each session provided landowners and stakeholders with a background presentation about the forestland conservation issue and offered the opportunity for comment regarding forest preservation incentives and alternatives. Across the eight public meetings, 232 people attended and 89 offered public comments. An additional 52 individuals submitted comments through the DOF website.

At the eight public meetings, one trigger question was asked that led to the 83 comments. The question was **what are the factors, concerns, and issues that affect your decision to preserve forestland?** During each session, both written session summaries and voice recordings were taken. A review of the public comments yielded the following categories in response to the trigger question: **Incentives, Estate Taxation, Property Taxation, Conservation Easements, Local Ordinances, Forest Management and Forestry Programs, Education, the Department of Forestry, and Other.** Not all of the eight sessions contained elements from all the categories but those categories mentioned above were consistently discussed during the meetings.

Those nine categories contained common themes which are summarized in Appendix 2. The "**Other**" category contains information not directly attributable to any of the previous eight categories.

Focus Group Session

In addition to the statewide public meetings, a focus group was conducted on September 21, 2004. The findings are presented below:

Eighteen individuals, including forestland owners, representatives from forest-related and conservation stakeholder groups, state conservation agencies, and local government, participated in a focus group September 21, 2004 at the Virginia Department of Forestry's central office in Charlottesville.

The purpose of the focus group was to share the eight draft recommendations that a subcommittee of the Board of Forestry had developed relative to Senate Joint Resolution (SJR) 75 with participants and obtain their viewpoints and perspectives.

The draft recommendations were developed after a review of the public comment obtained from the seven public input meetings held across the Commonwealth during July and the information that had been obtained from other states relative to their efforts to preserve forestland.

The following draft recommendations were shared with participants:

- Educate landowners on the benefits and incentives available to maintain their land in forestland. This could be accomplished by charging VDACS, DOF, and Virginia Tech Extension with specific roles in educating landowners on these benefits and incentives.
- Modify existing inheritance tax structure with caps or limits so that more family owned farms and forestland could be preserved. Improvements in the estate tax laws could reduce fragmentation.
- Offer a forestland taxation option similar to the Indiana Classified Forest program or the state of Georgia program. This would significantly reduce the property tax burden for landowners and ensure that their lands would be properly managed.
- Strengthen the current Right to Practice Forestry law. This would limit restrictive local ordinances, which act as disincentives to landowners to practice forestry.
- Create an opportunity for conservation easements that are set for a determined period of time (25-50 years with options for renewal). This would encourage additional landowners to protect their property with a conservation easement.
- Secure funding for DOF to provide six Forest Resource Planners to work with municipalities, planning districts, nonprofits, landowner groups, and others to address forest resource issues.
- Enhance markets for forest products by creating a favorable business environment for globally competitive forest based industries.
- Provide a full 100 percent general fund match for the severance taxes collected under the Reforestation of Timberlands program.

The participants responded to the following questions for each of the recommendations:

- Does this recommendation address the loss of forestland/the preservation of forestland?
- Is this recommendation something you as a landowner/your organization could support? Are there pieces/parts you could support? If not, what could you as a landowner/your organization support relative to this recommendation?
- Are there changes/modifications you would suggest be made to this recommendation that would strengthen it? Why?

Major Focus Group Findings

The following findings were noteworthy from the Focus Group Session held September 21, 2004. A detailed summary of each Focus Group recommendation is found in Appendix 3.

- That while education is important and was generally supported by the participants, it was not viewed as playing a major role in forestland preservation given that there are other incentives that carry more weight with landowners.
- There was general agreement that while federal inheritance taxes serve as more of a barrier to the retention of land, landowners would support eliminating the state tax of five percent.
- There was some support for applying land use taxation uniformly statewide and also concern expressed as to how this would affect local governments' ability to obtain funds to provide services, particularly in rural jurisdictions.
- Many participants were unfamiliar with the Right to Practice Forestry law and its intent. There were too streams of thought expressed: 1) the need for balance between the rights of landowners, local governments, and preserving the environment and 2) the concern of landowners being told what to do on their land when it affects their economic well-being.
- There was general support for conservation easements but less support for time limits on those easements.
- There was support for securing funds for the Department of Forestry to obtain six Forest Resource Planners to work with municipalities, planning districts, nonprofits, landowner groups and others to address forest resource issues. However, it was felt this recommendation needed to include a job description. It was also felt the term, "forest resources," needs to be defined.
- There was very little support for the recommendation to enhance markets for forest products. It was felt others in the private and public sectors are doing this successfully. There did seem to be support for educating landowners on seeing how value could be added to their product.
- There was full support for providing 100 percent general fund match for the severance taxes being collected under the Reforestation Timberlands Program.
- There was some support for developing a recommendation relative to the Purchase of Development Rights.

Core Findings and Recommendations

The following three findings form the foundation of the Board of Forestry's supporting statements and recommendations.

Core Findings #1 - "Working Landscapes"

Input received at the public meetings and focus group as well as the ongoing work of the Board of Forestry and Department leads to the conclusion that forestland preservation and forestland economic viability are inextricably linked. If private, non-industrial forest landowners are not able to market both the hard products such as timber and softer products such as hunting leases or horseback riding, then there are no incentives to counter the pressure to convert to non-forest use. Hence, landowners must be able to manage their land to achieve these goals. Recommendation number 6 and supporting statements 1, 3, 4, 5 directly relate to the landowner's ability to manage and achieve a "working landscape".

Core Findings #2 - "Landowner Incentives"

Also widely discussed during the Board's work has been the realization that the proper mix of landowner incentives can deter conversion or permanently preserve forestland. Up front in this discussion are conservation easements and forest management incentives. For real preservation and a stable forestland base to be established, significant funding should be made available for easements and forest management activities.

Core Findings #3 - "Landowner Education"

From Department of Forestry work through the last decade, forestland is converting at a faster rate than ever before. It is estimated that over 400,000 private forest landowners now live in Virginia. The average tract size continues to decrease. Hence, forest landowner education on topics ranging from tax issues to basic forest management continues to be a very real need and key to landowners understanding what value, both resource-wise and landscape-wise their land possesses.

SJR 75 asked the Board of Forestry to study the ... "provision of incentives to private landowners to hold and preserve their forestland". Based on eight public meetings, a day-long focus group session, research efforts by the Department of Forestry, and continued study by the Board of Forestry, the following recommendations with justification are presented:

The BOF defines recommendations as those requiring Legislative action. The BOF defines supporting statements as programs or activities that need to be maintained and/or improved.

The following recommendations with justification are presented:

1. Institute a uniform statewide land-use taxation program.

Justification: Use-value taxation has been a Virginia local option since the 1970's. Many counties have adopted different tax rates for agricultural, forest, or open land. These reduced tax rates are based locally on soil productivity and other natural and economic factors. However, each county is independent of every other county with their assessed rates. If one considers forestland preservation to be an important statewide issue, then the combination of different rates coupled with counties without use-value taxation makes consistent local preservation efforts unpredictable and difficult to implement.

A uniform statewide use-value taxation can offer landowners reduced land tax rates, predictable management alternatives and a stable ownership future. Program flexibility can still rest with the locality; however, the option to not have a use-value taxation program would not be present. Other program parameters such as tax rate structure options and landowner applicability would still need to be determined.

The Board of Forestry requests that Legislation be developed during 2005, with the knowledge and assistance of appropriate House and Senate Committees and Legislative Services, to adopt uniform statewide use-value taxation with local implementation options including setting the tax rate. We furthermore request this legislation be introduced in the 2005-2006 General Assembly Session.

2. Increase funding for the Virginia Land Conservation Foundation to conserve forest lands.

Justification: Chapters 900 and 906 of the Virginia Acts of the Assembly established the Virginia Land Conservation Foundation, Fund, and Board of Trustees. These acts and recent amendments are codified at Sections 10.1-1017 through 10.1-1026 of the *Code of Virginia*. The Virginia Land Conservation Foundation is Virginia's funding mechanism for preserving our disappearing landscape. The Foundation was created in 1999 by the Virginia General Assembly.

Natural resource conservation programs currently represent around one percent of the state's budget which is not enough to meet the state's Chesapeake Bay 2000 Agreement calling for ... "20 percent of the watershed of the Bay preserved by 2010".

The Foundation's main goal is to provide funding for the purchase of conservation easements and for fee simple acquisition. Since that time, the Foundation has not been funded adequately to stem the tide of land conversion.

The Foundation was only marginally funded since its inception and has not been funded since the year 2000.

The coalition of Virginia conservation groups including VaULT (Virginia United Land Trusts) has requested \$50 million annually for the Foundation through the *Blueprint to Conserve Our Lands and Restore Our Waters* effort. Coupled with both federal and local conservation programs, the Virginia Land Conservation Foundation can and should provide the bulk of state conservation successes. With \$50 million annually for land conservation, Virginia can:

The BOF recognizes that private non-industrial forest landowners are under great pressure to convert to non-forest uses. Conservation easements represent the most effective method to assist these landowners who desire to keep their lands in forest and should be the focus of this additional funding recommendation. Also, this additional funding can:

- **Acquire new public lands like state forests, wildlife management areas, parks and natural area preserves.** These are places where every Virginian can enjoy hunting and fishing, hiking, camping and other outdoor activities. Other benefits include wildlife habitat conservation, water-based recreation, and environmental education.
- **Provide assistance to localities with purchase of development rights programs.** These are programs under which localities compensate property owners for restricting future development of their land. This can make it affordable for farmers and forest land owners to keep their working land, and allow localities to protect natural resource lands that benefit the public.
- **Provide matching grants to leverage private, local and federal investment throughout Virginia.** The Virginia Land Conservation Foundation makes matching grants to land trusts and others for historic preservation, farm and forestland protection, natural areas and open space. Many of the projects that receive VLCF grants are conservation easements and Civil War battlefields.

The Board of Forestry requests \$50 million per annum be placed in the Virginia Land Conservation Fund. In addition, the Board requests the Department of Conservation and Recreation, in conjunction with agency partners and consent of the Foundation Board, to review the administrative procedure around the “Farm and Forest” funding category and make any appropriate changes that improve or increase the allocation to this important category.

3. Create a Governor’s Commission on Forest Education and Outreach with the Secretary of Agriculture and Forestry as lead.

Justification: Focused natural resources education for both landowners and the general public has been inconsistent and its outcomes difficult to measure.

Information on preservation tools can be difficult to obtain. Some success has been seen through the Project Learning Tree (PLT) and Luv-a-Tree children's education efforts as well as targeted landowner education efforts through Virginia Tech Cooperative Extension and the Department of Forestry. Continual programming efforts by the Virginia Department of Conservation and Recreation, Soil and Water Conservation Districts, and federal Natural Resources Conservation Service are also noteworthy.

Several surveys over the last decade show the Department of Forestry reaches only a small percentage of private, non-industrial landowners. Newer approaches such as the world-wide web give better opportunities for educating and informing the public. A collaborative, fully integrated approach to natural resource education is clearly needed.

Partners whose mission is to provide such education and information need to clarify and set priorities, organize leadership and distribute information, and agree on accountability measures. The purpose of this Commission is to make forest landowners more aware of the extent of preservation and other natural resource tools available.

The Board of Forestry requests a Governor's Commission of Forest Education and Outreach be formed with overall direction provided by the Secretariat of Agriculture and Forestry. The Commission will be in existence for one calendar year. Any recommendations stemming from this Commission's work will be forwarded to the Governor.

4. Provide funding for the Department of Forestry to initially create six forest conservationist positions within the Department of Forestry.

Justification: The Department of Forestry has as its number two goal the ... "conservation of the forestland base". Recent budgetary constraints have not allowed the Agency to place conservation foresters in localities where forestland conversion is greatest. In cooperation with our natural resource partners, these conservation foresters can focus on important local planning issues, help implement the conservation template, and assist with critical technology transfer including education and information. Also, these new positions will work with the above-mentioned Commission to disseminate land preservation information.

The Board of Forestry requests \$535,000 per annum in the next biennium to fund these six (6) positions within the Department of Forestry.

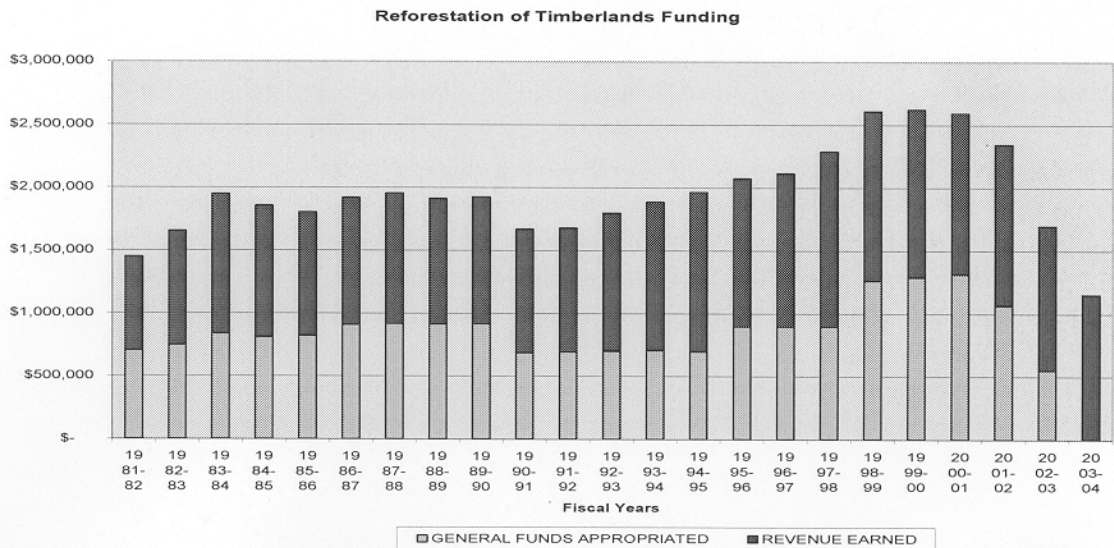
5. Fully fund the Reforestation of Timberlands (RT) Program.

Justification: The Department of Forestry-administered RT program was established in 1970 to offer cost-sharing for pine planting. During this initial time

period, the pine resource was being depleted. To qualify for this cost-sharing, a forest management plan must be in place.

The RT program is funded through the collection of a severance tax on harvested wood products. Severance tax rates have not increased since 1980. According to the legislation, the Virginia General Assembly is supposed to match this severance tax with general fund revenue. Since the program's inception, consistent matching funds equaling the severance tax revenue has never been appropriated and delivered to the Department for distribution to landowners.

RT funding is governed by a Governor-appointed Board which determines funding amounts per practice and overall programmatic direction. Fully funding this program would distribute more monies statewide for forest management practices, thereby increasing the incentive package and making land more productive and economically viable.



The figure above shows the funding history for the RT program from 1980 to the present. As recently as 2003-04 year, general fund matching revenues have been zero, making this cost-sharing unstable and reducing confidence in landowner's ability to manage successfully. Consistent, plentiful cost-sharing for forest management activities gives forest landowners the ability to lower costs and forego notions of converting forestland to non-forest uses.

The Board of Forestry requests full matching revenues from the General Assembly for this program and to instruct the Reforestation of Timberlands Board to review the current tax rate structure and make any recommendations for change through the State Forester to the Secretariat of Agriculture and Forestry by October 1, 2005.

6. Further this study to consider the following three critical preservation areas: 1) developing a voluntary, statewide, “forestland” protection program, 2) review and possibly strengthen The Right to Practice Forestry Law (10.1—1126.1) including reviewing local ordinances and considering their impact, financial and otherwise, on the non-industrial, private landowner’s ability to manage their forestland, and 3) thoroughly examine the status of the hardwood resource and its relation to forest land conversion including any recommendations to improve the health and quality of the hardwood resource.

Justification: Land preservation is a wide-ranging, complex set of overlapping issues. The SJR 75 public and information-gathering process has been a great learning experience for the Board of Forestry and Department of Forestry. In the information-gathering phases of this project, *three additional study areas*, as listed above, have come forth which require additional work to investigate, discuss with stakeholders, and form additional recommendations.

The Board of Forestry requests a further Legislative Study with the power to call on other governmental bodies including local governments to assist with this further study. The Board of Forestry will facilitate this study and incorporate any ongoing research work.

The following supporting statements with justification are presented:

1. Support The Right to Practice Forestry law.

Justification: Virginia, as well as many other states, faces local legal conflicts regarding timber harvesting and other agribusiness matters. In an effort to reduce the number of these conflicts and protect landowners from unnecessary restrictive ordinances, “The Right to Practice Forestry Law” was passed during the 1997 Virginia General Assembly session and is codified in Section 10.1-1126.1.

In addition, the law was meant to give landowners flexibility to utilize their property in profit-making ways while meeting environmental regulations and voluntary practices. There has been an ever-increasing attempt on localities part to control land use activities which has led to a mixture of local ordinances that differ from locality to locality. This regulatory hodge-podge has left many landowners surprised and confused on the local level requirements.

One such challenge to the “Right To Practice Forestry Law” was the Ann F. Dail, et. al. v. York County, et. al. (Record No. 991591). Briefly, this case was heard in Spring, 2000 when Ms. Dail argued that the York County ordinance which asked her to leave a highway buffer as well as possess a forest management plan prior to harvesting preempted “The Right To Practice Forestry Law” and she should not have to follow the county ordinance. The local Circuit Court dismissed the case ruling that the ordinances were not preemptive. The case went to the Virginia Supreme Court which also allowed the ordinances to remain, hence, requiring a buffer on her property with the buffer area not available for harvesting.

The Board of Forestry requests the review and possible strengthening of the Right to Practice Forestry Law. This review can be conducted and facilitated by the Board of Forestry, in cooperation with other entities, during the extended study period requested in Recommendation # 6.

2. Support the Purchase of Development Rights (PDR) effort at the county level utilizing the Virginia Farmland Protection easement template.

Justification: Land conversion for both forest and agricultural land sits at approximately 60,000 acres per year. The triad of federal, state, and local conservation funding can serve to maximize preservation efforts. In Virginia, there are several good examples of local or county PDR programs such as the city of Virginia Beach or Albemarle County.

The recently completed Virginia Farmland Protection easement template can serve both agricultural and forestland conservation efforts by providing localities an easy-to-use approach to local program development. Easier program development does not, in itself, yield local funding but implementation made easier makes local outcomes more predictable and politically palatable.

The Board of Forestry requests that the Virginia Department of Agricultural and Consumer Services, in conjunction with the Department of Forestry and Conservation and Recreation, ensure this template is made available to localities and training is given to its implementation.

3. Support the results of the Forest Economic Summit sponsored by the Secretariat of Commerce and Trade.

Justification: The Secretariat of Commerce and Trade convened a “Working Summit on Virginia’s Forest Industries: A Call to Action” in May of 2004. The purpose of this summit was to open a dialogue between the diverse forest economic sectors, government, and education. Furthermore, the summit was one method to create a mechanism for all stakeholders to effectively leverage their efforts towards the common benefit of the industry and Virginia.

Virginia’s forest resources play a key economic role in the state’s vitality. Below are some of the basic parameters listed for the forest sector:

- Timber is top agricultural crop
- Forest and wood products top manufacturing sector
- Value of products shipped is \$11.5 billion
- \$500 million in products exported from Virginia ports
- Each manufacturing job creates two service/support jobs
- Creates 250,000 jobs that directly or indirectly support the industry
- Economic multiplier is \$1 to landowners is equal to \$34 value added
- Total annual economic output is \$25 billion

Four anchor themes (**bold**) resulted from the summit dialogue. Below find those anchor themes with recommended actions:

- **Knowledge Transfer and Research and Development**
 - a. Provide a Forest Industry assessment survey and report
 - b. Develop a flexible manufacturing systems-based product/process design, development, and performance evaluation laboratory.
 - c. Foster an enhanced secondary manufacturing research and development agenda to support value-added activities and new product development.
 - d. Convene a nationally recognized conference to address future uses of bio-based products and enhancements.
- **Workforce**
 - a. Increase workforce skill level
 - b. Increase logger compensation by promoting educational standards
 - c. Listen and act on Hispanic workforce concerns
 - d. Dialogue with furniture and cabinetry industry on relevant issues

- **Logistics and Infrastructure**
 - a. Convene meeting of Virginia logistics and transportation providers-truck, rail together with forestry and wood products to discuss transportation and infrastructure issues.
 - b. Create “value-stream” map-areas of heaviest corridor use and bottlenecks.
 - c. Pursue inland port in Southern Virginia.
 - d. Establish new procedures for phyto-sanitation inspection and special handling of forest products at the Port.
 - e. Develop plan to facilitate forest products clusters.

- **Social Marketing and Public Awareness and the Sustainability of Forest Resources**
 - a. Agree on Social Marketing strategy - Who, What, How to market the message.

The Board of Forestry seeks support for the above-mentioned forest economic themes as showcased at the recent summit. This support could manifest itself as legislative or funding support as expressed in the themes and actions.

4. Support the repeal of the state and federal inheritance tax associated with forestland preservation.

Justification: The estate tax is a transfer tax on the estates of resident decedents and the estates of nonresident decedents having real estate or tangible personal property in Virginia. Only those estates required to file a federal estate tax return are subject to the Virginia estate tax requirements.

Currently, a sliding tax rate scale exists through the year 2010. Estate tax rates decline through 2010. Over that period, the maximum estate tax rate will be reduced from 55 to 45 percent with the federal filing requirements listed below:

<u>Date of Death</u>	<u>Gross Value Exceeding</u>
Through 12/31/97	\$600,000
1/1/98-12/31/98	\$625,000
1/1/99-12/31/99	\$650,000
1/1/00-12/31/01	\$675,000
1/1/02-12/31/03	\$1,000,000
1/1/04-12/31/05	\$1,500,000
1/1/06-12/31/08	\$2,000,000
1/1/09-12/31/09	\$3,500,000
2010	\$0

The Estate Tax Exemption also gradually increases to \$3.5 million in 2009. Under federal law, estate taxes are eliminated in the Year 2010. There is the possibility, however, that estate taxes could return in 2011 at the rates existing in 2001.

As shown above, a decrease in the overall estate tax burden has occurred for in the meantime. However, considerable tax burden still exists for some Virginia landowners. Also, the very burdensome previous rates could return in 2011. Hence, continued diligence in speaking to the impacts from estate taxes on conserving forest and other lands across generations is critical to achieving preservation success.

The Board of Forestry supports the elimination of federal and state estate tax requirements and requests the Virginia General Assembly work with Virginia's Congressional delegation to eliminate the tax at the federal level.

5. Support the current framework and payment structure of the Virginia Land Conservation Tax Credit program.

Justification: Only two states in the nation, Virginia and Colorado, have programs dealing with the concept of selling conservation credits. In Virginia, it is widely accepted that this credit has spiked an increase in conservation easements. The Virginia Outdoors Foundation (VOF) has accepted 122,487 new conservation easement acres in the last five years. With the total acreage for VOF at 250,242, *this represents almost half the total acreage in conservation easements* since the inception of the Virginia Outdoors Foundation in 1966.

Briefly, the Virginia Land Conservation Incentives Act of 1999 gives donors of conservation land and easements a credit against state income taxes of one-half the value they give away. This tax credit can now be sold for cash. Unused credits may be carried forward and used in five more tax years after the year of the original donation. This credit is particularly helpful to low income landowners who do not pay enough tax to utilize the credit and to generally encourage more land conservation. Please find below three areas of benefit (**bold**) regarding this law:

Benefits to the landowner:

- Rewards private landowners who voluntarily protect important lands in Virginia (such as those necessary to meet Virginia's commitment under the Chesapeake 2000 Agreement).
- Helps landowners keep their family land by providing a financially attractive alternative to selling the land for development.
- Can reduce or eliminate state income tax liability by making a conservation gift.
- Enables landowners to obtain a more attractive financial return from a gift.
- Benefits landowners in all income categories, not just the wealthy.

Benefits to conservation:

- Establishes a market-based incentive to encourage conservation donations.
- Makes conservation of lands owned by “land-rich/cash-poor” landowners financially feasible.
- Makes conservation of lands in the most threatened parts of the state, where rapid development is causing land values to rise, financially feasible.

Benefits to Taxpayers/the Commonwealth. Conservation easements and land donations protect many resources of value to the citizens of the Commonwealth, both now and for future generations. Among the resources protected by conservation easements are:

- Watershed protection for crucial drinking water supplies.
- Protection of the Chesapeake Bay and helping meet the Chesapeake 2000 commitment.
- Prime agricultural soil protection, often helping to preserve a critical mass of farmland for continued farming.
- Historic and cultural resource protection, especially the landscape context of such resources.
- Civil War battlefield preservation.
- Scenic viewshed protection, including the edges of parks, scenic roads and rivers, and highway corridors.
- Open space and recreational land preservation.
- Wildlife habitat and wildlife corridor protection, including threatened or endangered species.
- Forest protection, including sustainable forestry harvesting and for old growth forest protection.
- Benefiting the Commonwealth’s world-renowned tourism appeal, by permanently protecting the precious resources outlined above.

In this past year, there has been Virginia legislative scrutiny of the Tax Credit Program. Apparently, there have been rumors of program abuse by larger land-holding corporations. These abuses have not been proven but have caused some concern over program integrity with Legislative members who have discussed limiting the amount of the tax credit, thereby reducing its overall conservation effectiveness.

The Board of Forestry requests this tax credit not be reduced nor limited. Land preservation will decrease with reductions in this tax credit opportunity.

Appendices

Appendix I: Senate Joint Resolution 75

Appendix II: Public Meeting Detailed Analysis by Category

Appendix III: Summary Comments for Focus Group Recommendation

Appendix IV: Research Information

APPENDIX I

SENATE JOINT RESOLUTION NO. 75

Requesting the Virginia Board of Forestry to study the provision of incentives to private landowners to hold and preserve their forestland. Report.

Agreed to by the Senate, February 17, 2004

Agreed to by the House of Delegates, March 9, 2004

WHEREAS, Virginia's forestland covers two-thirds of the Commonwealth's land cover and is one of our most valuable natural resources; and

WHEREAS, the 15 million acres of forestland protect our watersheds, provide food and cover for wildlife, help purify air, provide products for Virginians' daily needs, and afford recreational opportunities for its citizens; and

WHEREAS, almost 80 percent of Virginia's forestland is owned by private individuals and small corporations that invest their resources in providing stewardship of these lands; and

WHEREAS, Virginia's population continues to increase, with development extending further into rural areas, resulting in the loss of forestland as it is converted to other uses; and

WHEREAS, restrictive regulations, escalating real estate taxes, increasing zoning and local ordinances act as disincentives for retaining forestland and open space; and

WHEREAS, Virginia's continued loss of forestland will have an undesirable effect on our environment and economic well-being; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Virginia Board of Forestry be requested to study the provision of incentives to private landowners to hold and preserve their forestland.

In conducting its study, the Virginia Board of Forestry shall (i) review laws and programs of other states, localities, and agencies and (ii) seek comments and recommendations from citizens, conservation groups, farm and forest landowner association representatives and forest industry association representatives for the purpose of recommending mechanisms that will provide incentives to private landowners to maintain and preserve their forestland for the environmental and economic benefit of the Commonwealth.

Technical assistance shall be provided to the Virginia Board of Forestry by the staff of the Virginia Department of Forestry. All agencies of the Commonwealth shall provide assistance to the Virginia Board of Forestry for this study, upon request.

The Virginia Board of Forestry shall complete its meetings by November 30, 2004, and shall submit to the Governor and the General Assembly an executive summary and a report of its findings and recommendations for publication as a document. The executive summary and report shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports no later than the first day of the 2005 Regular Session of the General Assembly and shall be posted on the General Assembly's website.

APPENDIX II

The information presented below represents a detailed analysis of the input across the nine categories as received at the eight public meetings.

Incentives

This category represents more general comments about basic incentives for forestland preservation. Some of the other categories can be considered “incentives” also such as property taxation relief. One common philosophical theme mentioned during the public comment period centered on how society values forestland and “forest spaces” and we should value it higher and create better incentives to preserve. More practically, many ideas centered on increasing or directing tax dollars to fund and compensate landowner incentive programs such as Purchase of Development Rights (PDR). Also, the relationship between technical assistance, outreach, and protection was stated as an incentive for landowners to preserve land.

Estate Taxation

The dominant theme in this category was to repeal the Estate Tax (inheritance tax) to ease the passing of forestland from one generation to another. This tax fuels the necessity to sell land due to the high cost incurred at this transitional stage of land ownership.

Property Taxation

A very strong theme throughout the eight sessions was a uniform, statewide land use tax program. By this, participants meant reduced land taxes for forestland. Some more detailed comments suggested that only lands with suitable management plans should be eligible for such property tax relief. Additional comments regarding property tax relief stated that only ecologically functioning forests should be considered.

Conservation Easements

Conservation easements were mentioned at each public meeting as a strong tool for preserving forestland from conversion to a non-forest use. Conservation easements are legal agreements the landowner signs that remove the possibility, usually in perpetuity, of their forestland converting to non-forest. This agreement carries with the deed of the property.

At this point in time, there are limited programs that pay landowners for the easement value. Comments ranged from offering stronger tax incentives for easements to upgrading state programs to fund easement purchase or costs associated with easements. Also, many comments wanted the state to consider easements of less than perpetuity and to ensure that forest management activities could still be carried out under an easement.

Local Ordinances

Two basic themes ran across the eight sessions. First was the unwanted proliferation of local ordinances that were confusing when moving from county to county and in conflict with state law (i.e. Right to Practice Forestry legislation). Second was the idea that local ordinances can cause a disincentive to owning forestland by limiting management options through harvesting or other management restrictions such as a visual buffer ordinance.

Forest Management and Forestry Programs

This category received a wide variety of responses with several themes apparent. The first major theme was the recognition of the private, non-industrial landowner to manage their land as they wished and to not be impeded by burdensome regulation (Right to Practice Forestry). Conversely was the minority opinion of the theme of anti-clearcutting and practicing “restorative forestry”. The comments defined “restorative forestry” as “taking the worst and leaving the best during harvesting operations.

A third theme across the comments was fulfilling the mandate of the Reforestation of Timberlands Program which calls for matched funding from the General Assembly equal to the tax brought in. This has been sporadic through the years.

Other comments seen frequently were increasing the number of foresters in the Department of Forestry so forest stewardship planning could increase, acquiring more federal Forest Legacy conservation funding, including conservation incentives for forestland other than pine plantations and restricting harvesting in riparian areas.

Education

The related themes of public and landowner education were common among several of the sessions. One group of responses spoke to the overall need of increasing public education about the value of forests in our school systems and that these natural resource management concepts are not taught nowadays. A couple of comments actually spoke to the wrong message being sent about forest harvesting, i.e. should not be done.

Private, non-industrial landowner education was discussed many times with the theme being to significantly increase efforts to educate the growing number of landowners in Virginia. Educational efforts should center on forest science, forest values, and available programs.

The Virginia Department of Forestry

Two themes emerged from the sessions regarding the Department of Forestry. First was the need to increase staffing to upgrade the level of service for private, non-industrial landowners. The second theme was to upgrade the level of information available to landowners including the web site and more traditional methods. Other less frequently seen comments were to have the Department be more customer-friendly and to include as many native, non-invasive species in the nursery catalog as possible.

Other

Many diverse comments were seen in this category. Some of these comments could have been placed in one of the other categories but did not exactly fit. No real themes emerged but some comments were seen more than once. The first of these comments is the recognition that forests provide both economic and quality of life benefits and there is a need to expand markets and forest products, particularly for low grade hardwood. One example cited was the possibility of using chips for fuel.

Another group of comments revolved around the idea of landowner liability. This was cited in reference to development bumping up against forestland and the need to continue the ability to conduct management options such as aerial spraying.

One other set of comments centered on the idea of logger certification and environmental protection. Other comments mentioned the following topics: Government's role in forestry, telemarketing programs taking aim at landowners to sell their timber, tobacco buy-out will lead to lots of land put on the market, focusing research funding to Virginia Tech.

APPENDIX III

The information presented below is the set of draft recommendations stemming from the Focus group session held September 21, 2004.

Draft Recommendation # 1

Educate landowners on the benefits and incentives available to maintain their land in forestland. This could be accomplished by charging the Department of Agriculture and Consumer Services, Department of Forestry, and Virginia Tech Extension with specific roles in educating landowners on these benefits and incentives.

Summary Comments

- There appeared to be agreement that education for forest landowners is important for the appropriate management of the forests.
- Participants named a number of groups that should be targeted for the education:
 - It was felt by three individuals that education should be targeted to the “new faces” that are moving into rural communities on land that has forests.
 - Children need to be educated on the value of forestlands.
 - Lawyers and accountants need to receive education on forestlands and tax credits.
 - Local government officials need to understand the value of the forestland.
 - General public needs to be educated on the value of forestland, particularly the non-owners who use the forest.
- Several participants mentioned the challenges of providing education to forest landowners:
 - Several persons noted that there is a wealth of information available but that it needs to reach the landowner at the time needed. It was questioned why information is not reaching those who need it. Some participants felt that educational offerings need to be targeted.
 - The knowledge base of landowners vary – some know a lot, some know little, some aren’t interested in learning relative to their forestlands.
 - The comments were made that “lots of elderly females” are landowners and need information but they also need lots of “hand holding.”
- It was questioned whether the three organizations listed in the recommendation were the appropriate or only groups to provide the training. It was suggested by two individuals that nonprofit/private organizations often provide education and should be added to the recommendation as other entities that could assist with education efforts. It was also suggested that educational efforts need to be coordinated among all those doing education and training so there is not duplication.

- It was suggested by two individuals that one-to-one education between Forestry staff and the landowner was important. It was mentioned that the building of a relationship prior to the sharing of the information is critical to the educational process.
- Several participants mentioned educational content. Several spoke to the need for landowners to understand conservation easements, the need to help landowners to do “transfer of land from one generation to another” type planning, how to manage forestland as a long-term investment, and tax credits (in relation to easements).

Draft Recommendation # 2

Modify existing inheritance tax structure with caps or limits so that more family owned farm and forestland could be preserved. Improvements in the estate tax laws could reduce fragmentation.

Summary Comments

- There was general agreement that this is more a federal issue and not a state one since the state inheritance tax is 5 percent. However, there was general agreement landowners would support this recommendation.
- It was suggested that the term, “family” be eliminated since many family farms or forestland are corporations.
- It was also suggested that inheritance taxes be eliminated on farms/forestland but not on everything else since the public enjoys the benefits of forests. It was also suggested that the impact of eliminating the tax should be studied.
- It was suggested that the recommendation be modified to reflect a need to study the effect of increased property values and antiquated tax laws on forestland preservation.

Draft Recommendation # 3

Offer a forestland taxation option similar to the Indiana Classified Forest Program or the state of Georgia program. This would significantly reduce the property tax burden for landowners and ensure that their lands would be properly managed.

Summary Comments

- The discussion focused on current land use taxation programs. There were some who prefer for consistency that land use be applied statewide. There were others who felt local government needed to have local control. The concern expressed with statewide land use taxation programs was how local government would recoup the lost dollars, particularly in rural areas. It was also thought by some that the local land use taxation programs had to be a part of the jurisdiction’s comprehensive plan.

- It was suggested that where land use is available, it should be applied to both farms and forestland, not just farms as it is currently implemented in some jurisdictions.
- There was general recognition that when taxes are reduced for one sector, they may increase for another sector.
- Several commented that if the Board decides to move forward a recommendation that calls for land use taxation to be applied uniformly across the state, the impact on state and local taxes/revenues should be studied.
- It was suggested that the state consider appropriating money to offset the “land-use tax” loss to local government should land use taxation be applied statewide.

Draft Recommendation # 4

Strengthen the current Right to Practice Forestry law. This would limit restrictive local ordinances which act as disincentives to landowners to practice forestry.

Summary Comments

- A number of participants were not familiar with The Right to Practice Forestry law and questions were raised as to how it affects forest landowners.
- Comments were made by several participants as to the need for balance between the rights of landowners, local governments, and preserving the environment. Some did not see a conflict, others did.
- Several stated they resented being told what they could do and not do on their land when it affected their economic base. Comments were made that if the landowner was expected to put land into buffers (as one example) or to be expected not to cut their timber, they should be compensated for the loss of income.
- Several felt this was an area for which education of the public and local government was needed.
- A comment was made that the Board may not want to open this up for discussion in the General Assembly because the law may be weakened since elected officials may not understand the need for such a law.
- It was suggested that if the Board should chose to keep this recommendation it needed to be explicit in how the law should be strengthen.
- A comment was made that timber harvesters’ work in more than one jurisdiction and when ordinances differ from locality to locality it is hard for the logger to know what the rules are.

Draft Recommendation # 5

Create opportunity for conservation easements that are set for a determined period of time (25-50 years with options for renewal). This would encourage additional landowners to protect their property with a conservation easement.

Summary Comments

- While there appeared to be general support for conservation easements, it was unclear to some how term limits on them would work. Some felt the option already existed but that the incentives aren't in place to support this. Some were concerned that landowners would hold land for a limited period of time as it increased in value and then sell it for development. There was concern as to how this could be prevented if the option of term limits existed.
- It was felt that conservation easements do preserve forestland but there needed to be strong economic incentives to encourage landowners to place their land in a conservation easement.
- It was suggested that the Board should investigate the transfer of development rights and the value this may have toward the preservation of forestland.
- It was felt by some that the benefits of placing land in a conservation easement weren't always clear and this may be an area for education.
- It was suggested that Department of Forestry should become more involved in conservation easements but a participant raised the issue of the administrative cost of monitoring easements and who would pay for those costs should the Department choose to do this.

Draft Recommendation # 6

Secure funding for DOF to provide six Forest Resource Planners to work with municipalities, planning districts, nonprofits, landowner groups, and others to address forest resource issues.

Summary Comments

- There was support for this recommendation but participants wanted to make clear these six planners should be retained in addition to current staff, not in place of them. It was felt that these positions could be of great benefit to local governments who don't have such a resource on staff.
- It was felt that a job description should be developed for this recommendation making it clear what their role would be, working with whom on what issues. It was also suggested that the term, "forest resources," needed to be defined.

- It was also suggested that these positions could help with the education piece listed in the first recommendation in helping various groups understand the value of healthy forests to a community.

Draft Recommendation # 7

Enhance markets for forest products by creating a favorable business environment for globally competitive forest based industries.

Summary Comments

- There was very limited support for this recommendation. It was felt by some that private entities are working with market development and there is no need for this recommendation. Others felt that there was a need to create “product” for those markets and landowners could be educated on that need.
- The question was raised as to whether this recommendation meant work to reduce the environmental policy/law so there can be a favorable business environment.
- A comment was made that the Department could help landowners see other uses for their forests, e.g., beauty, hunting, etc., that may require different timbering practices.
- The question was raised as to how does marketing preserve forestland.
- The comment was made that markets have moved out of the country and will continue to do so. The issue becomes how to assist landowners to see new ways to develop value for their product within the current global economy. This was thought to be an education job.

Draft Recommendation # 8

Provide a full 100 percent general fund match for the severance taxes collected under the Reforestation of Timberlands Program.

Summary Comments

- All present expressed support for this recommendation. However, the issue was raised as to where will the funds come from and where do current dollars go.

Other Issues and Recommendations

Once all of the recommendations were reviewed, participants were asked:

- Are there issues within forestland preservation you think need to be addressed with recommendations that the Board has not chosen to do so at this time? If so, what are they? What would your recommendation be?

- Is there anything you walked into this room wanting to say regarding forestland preservation and the intent of this study that I haven't given you an opportunity to say but think it would be helpful to the Board as they finalize the recommendations?

A summary of their comments:

- Develop a recommendation relative to the Purchase of Development Rights – set up a state fund/match for federal dollars that are already available.
- Investigate the use of the Tobacco Settlement funds to be used as cost-share on reforestation of idle tobacco land.
- Blocks of land owned by paper companies are being sold. Work with them prior to selling on options that would preserve the land as forests.
- The hardwood industry needs attention. The disappearance of hardwoods needs to be stopped. There are hardwood landowners that would selectively cut their stand if the loggers had small equipment to take out the trees that need to be harvested saving those that don't.
- Investigate the selling of “loss” from easements.
- To preserve the forestland, efforts need to be made to increase profits for the landowner, not just the markets. In addition, the local tax base needs to be expanded so the burden doesn't exist on the “landowner's back.”
- Recommend that forests be a part of all local governments' comprehensive plans.
- Assistance needs to be provided to the young person who would like to purchase forestland but can't afford to make the initial investment.

Comments on the recommendations, in general:

- Limit the number of recommendations. Eight may be too many. Focus only on those that directly relate to forestland preservation as noted in SJR 75.
- Rank-order the recommendations in the report so it is clear to all those who see the report what is most important to the preservation of forestland.
- Provide more details to each recommendation, including costs if known.
- Reach out to other conservation groups, particularly in the private/nonprofit sectors for ideas and support

APPENDIX IV

The following information details the research aspects of SJR 75. After an initial literature review, several progressive states were examined with respect to land conservation, taxation, and forest management programs. Comparisons to Virginia were considered and discussion included where appropriate.

Introduction¹

There are a number of federal and state government programs that provide money or technical assistance to forestland owners to improve forest management or conserve or preserve forestland.

Many of these programs are direct incentives for good forest management. They help property owners improve the quality of the forests by providing up-front capital for investments in the property and by increasing rates of return at harvest. They also directly help to educate and assist property owners in exercising good forest management.

Improvements in the efficiency of the programs might include lowering cost-share rates, particularly in times of increasing stumpage prices. Another would be to in some way identify landowners without harvest revenues available to establish plantations, as opposed to those who likely would have planted without cost share assistance².

For the remainder of this discussion, the research will focus on programs that, if implemented, could possibly act as incentives for Virginia forestland owners to practice long-term, sustainable, and responsible forestry.

State: Minnesota

Program: Sustainable Forest Incentive Act

Benefit to Landowners³: The Sustainable Forest Incentive Act, passed in 2001, allows annual payments to be made to enrolled owners of forested land as an incentive to practice long-term sustainable forest management.

Requirements: In order to qualify for the SFIA program, applicants must own 20 or more contiguous acres, of which 50 percent is forested. The program is open to both residents and nonresidents of Minnesota but there can only be one claimant per parcel of land. The land must also have an active forest management plan in place (including goals for the property, legal description, forest cover type inventory, map of boundaries, etc.) which was prepared by an approved plan writer within the past ten years. All applicants agree to be enrolled in the program for a minimum of *eight* years and agree not to develop the land.

¹ Tax and Related Incentives for Forest Management. Research Report 307. Legislative Research Commission. Frankfort, Kentucky. January 2003.

² *ibid*

³ <http://www.taxes.state.mn.us>. Keyword: Sustainable Forest Incentive Act

Administration: Each year, Minnesota determines a statewide payment-per-acre rate using three formulas based on the average property tax for timberland. The formula that provides the largest payment-per-acre will be used. The minimum amount per acre is \$1.50. The amount each participant will receive is determined by multiplying the payment-per-acre by the number of enrolled acres.

Withdrawal Penalty: You may choose to cancel enrollment from the program after four years by filing a written request with the department. Once filed, the cancellation will take effect four years from the date of your written request. You will continue to receive incentive payments during the four-year waiting period. Once you withdraw, the land cannot be reenrolled in the program for at least three years. A penalty will be assessed if you do not complete eight years of enrollment. The penalty is equal to the total payments you received for the past four years, plus interest.

State 2: Washington

Program: Forestry Riparian Easement Program

Benefit to Landowners: The only program of its kind in the country, Washington's Forestry Riparian Easement Program partially compensates eligible small forest landowners in exchange for a 50-year easement on "qualifying timber". This is the timber the landowner is required to leave unharvested as a result of new forest practices rules protecting Washington's forests and fish. Unlike a typical easement involving property or a road, a forestry riparian easement covers only that timber leased to the state by a small forest landowner.

Requirements: Eligible landowners must own 20 or more contiguous acres of forestland, part of which must be next to a river, stream, lake, pond or wetland that the landowner plans to harvest in the near future. Historically, the landowner must not have harvested more than 2 million board feet of timber each year from all ownerships. Most importantly, the landowner must be willing to enter into a fifty year agreement with the state of Washington. Furthermore, the state must have access to the property by foot or by vehicle on occasion to visit the site. Trees covered by the easement may not be cut or removed for 50 years.

Administration: In setting up the easement, the landowner must initially cover all costs associated with setting up and recording the easement. These costs may include hiring a consulting forester to measure and mark the easement boundaries, developing a stewardship plan, filing fees, and mortgage company fees. However, once the landowner has formally enrolled in the easement program, all of these compliance costs will be reimbursed. After being approved for the program and setting up the easement, landowners will receive a minimum of *50 percent of the fair market stumpage value* for the qualifying timber. The landowner can choose to have the value of his or her timber assessed either on the date the application is submitted or the date when harvesting begins.

Withdrawal Penalty: It is not possible to withdraw from the easement program once an easement has been established. Easements will remain in effect for 50 years from the date the easement is signed.

Assessment: The Forest Riparian Easement Program is a unique program designed to act as a compromise between the need to protect state water resources and the right for landowner(s) to harvest timber. At the eight public meetings across Virginia, many forestland owners complained about the financial burden resulting from the inability to harvest timber near water sources. Washington's Forest Riparian Easement Program addresses this issue by "leasing" the rights to harvest timber in riparian areas from landowners for a period of 50 years. Landowners are partially compensated and the state of Washington utilizes a relatively cheap and simple method of ensuring water quality for its citizenry. When compared against the costs of constructing new water treatment facilities, the Forest Riparian Easement Program is a cost effective way of safeguarding Washington's water resources into the future while also providing much needed financial assistance to small landowners.

State 3: Oregon

Program: Forest Resource Trust

Benefit to Landowner: The Forest Resource Trust is the only program of its kind in the United States. Enacted in 1993, the Forest Resource Trust provides financial, technical and related assistance to nonindustrial private forestland owners to establish forest stands and improve management of forestlands for timber production, wildlife, water quality and other environmental purposes. In contrast to true cost share programs, the trust is a venture capital program where the State and the landowner share the risks and benefits of reforestation "underproducing" lands that at one time were forested. The state provides up to 100 percent of the initial costs of reforestation (up to a maximum of \$100,000 over a two year period). In exchange, the landowner agrees to reimburse the state when timber from the assisted acreage is harvested. There is no requirement, however, for the landowner to harvest timber at any time.

Requirements: Eligible landowners must own at least 10 contiguous acres of forestland and no more than 5,000 acres. The forestland must be "under-producing" as specified in the standards set forth by the Oregon Department of Natural Resources.

Administration: Reimbursement is based on a pre-determined percentage of after tax harvest revenues ranging from 10-25 percent. The formula includes factors such as reforestation costs, future timber prices, a set rate of return, and inherent worth of the site. The land becomes free and clear of the trust contract when the expected volume stated in the contract is harvested from the forest stand and the payback percentage is paid, or after 200 years.

Source of Funding: Lottery Revenues and PacifiCorp contributions

Withdrawal Penalty: A buyout option is included in the contract whereby owners may terminate the contract at any time during the first twenty five years by repaying all trust funds with 6.8 percent interest. Payments from the revenue sharing and buyout options are reinvested into the trust to reforest even more under-producing forestland.

Assessment: Landowner response was low in the years immediately following the program's inception and has subsequently grown slowly over the last decade. The Forest Resource Trust is a noble and original effort to provide landowners with assistance to reforest "under-producing" lands, but there have been many objections to the program. The complexity of the contractual agreement has been cited by many landowners as a reason for not enrolling in the program. Furthermore, the requirement that a lien on the property be retained by the State has acted as a disincentive for landowners to enroll in the program.

State 4: Wisconsin

Program: Wisconsin Forest Landowner Grant Program

Benefit to Landowners: The Wisconsin Forest Landowner Grant Program is a state-funded program that provides forestland owners with up to 65 percent cost sharing assistance for the following forest related activities: management plan preparation, tree planting (both hardwoods and softwoods), timber stand improvement, soil and water protection, fencing, various wildlife practices, buffer establishment, and threatened and endangered species protection.

Requirements: Eligible landowners must have at least ten contiguous acres and not more than 500 acres of non industrial private forestland. In order to qualify for the program, the applicant must have an existing forest stewardship plan or create one for the property upon application.

Administration: The minimum grant is \$100 per year for each landowner; the maximum amount of cost share assistance a landowner can receive is \$10,000. Program administrators create a list of high priority activities that receive 80 percent of the available funding. The remaining 20 percent is assigned to the low priority activities. Landowners cannot begin a practice before they receive written approval from the Department of Natural Resources lest they become ineligible for reimbursement.

Source of Funding: The program is funded with an annual \$1,000,000 dollars appropriation from the state legislature.

Assessment: The Wisconsin Forest Landowner Grant Program is a flexible cost share apparatus that allows for landowners to be reimbursed for a wide variety of activities on their forestland. As new threats to Wisconsin's forests arrive each year, the program adjusts its list of high priority activities to provide more funding to address these challenges. Since its inception in 1998, the program has provided more than four million dollars in reimbursement to over 4,000 landowners.

State 5: California

Program: California Forest Improvement Plan

Benefit to Landowners: The California Forest Improvement Program (CFIP) is a forestry incentive program that provides up to 75 percent cost share assistance to landowners for management plans, riparian forest supervision, site preparation, tree planting, thinning, pruning, follow-up, release, land conservation, and improvement of fish and wildlife habitat. CFIP's purpose is to encourage private and public investments in forestlands and resources within the state to ensure adequate future high quality timber supplies, related employment and other economic benefits, and to protect, maintain, and enhance the forest resource for the benefit of present and future generations.

Requirements: To be eligible for the program, landowners must own between 20 and 5,000 acres of forestland in California. Landowners that own less than 20 acres may qualify if they submit a joint application with neighboring landowners and the combined acreage is a minimum of 20 contiguous acres of forestland. The land must be able to support 10 percent or more tree cover with trees native to California, including native oaks and must also be zoned to allow forest resource management.

Administration: If the application is approved, the landowner will be provided with a formal contract called California Forest Improvement Program Agreement. By signing the contract, landowners agree to perform the project as proposed in return for financial assistance. Replanting forestland that has burned and conservation projects generally are the first to be funded, but most eligible projects can be funded given adequate lead-time.

Source of Funding: Timber harvest receipts from state lands.

State 6: Iowa

Program: The Iowa Resource Enhancement and Protection Program

Benefit to Landowners: In order to increase the economic viability of private woodlands, the REAP program reimburses landowners for 75 percent of their expenses. Eligible activities include site preparation for natural regeneration and tree planting, timber stand improvement, fencing, and establishment of restoration of windbreaks.

Requirements: For reimbursement of tree planting activities, a minimum of three forested acres is required. For timber stand improvements activities, a minimum of five acres is required.

Administration: The REAP program offers a maximum payment of \$365 an acre for approved activities. Since the program was created in 1989, however, funding has decreased steadily due to budgetary problems.

PROPERTY TAXATION

Introduction⁴

Forestland owners routinely list property taxes as their biggest complaint. The tax operates as a kind of carrying cost, a yearly cost incurred simply to own the property. Because forest property can be productive without generating income for many years, there is often no income to offset this cost. In years when this happens, forestland owners effectively own and operate their land at a net financial loss. At the eight public meetings held across Virginia pertaining to this study, the most often raised issue was the financial burden of property taxes and the inequality in property tax rates throughout the Commonwealth.

Because property taxes are not imposed directly on management activity, they may at first appear not to be related to forest management. However, many researchers suggest that the tax can be a disincentive for good forest management in several ways.

Impact on Forest Management⁵

Researchers claim that property taxes can create disincentives for good forest management in three ways. First, to avoid operating at a net loss, property owners may sell or convert the land to other, more productive and often more developed uses. Second, the tax may consume funds that would otherwise be invested in the property. Third, property owners may keep the land but cut and sell timber prematurely to pay the tax.

The effect of property taxes on land-use decisions, however, is more disputed. Louis Borie, in an article titled “Use Value Assessment: Tax Break or Management Incentive,” reports that the evidence is mixed, and that while lower taxes might provide an additional incentive not to develop forestland, such decisions are based on a variety of financial and other factors. Likewise, the University of Idaho study suggests that development decisions may depend more on location, reasons for owning the property, development pressures, and other pressures not including tax rates. Nonetheless, Virginia forestland owners have unanimously expressed their desire for the Commonwealth to adopt a more equitable and standardized property tax statute as an incentive for long-term forestland management and ownership.

Taxation Methods

In order to lessen the impact of property taxes on forest management, it is possible to change the method of calculating the tax to factor in more accurately the timing of the timber cycle and the income-producing potential of the property. There are several methods of taxing forest property. Aside from the resulting tax level, the timing and manner of each method can affect forest management decisions.

⁴ Tax and Related Incentives for Forest Management. Research Report 307. Legislative Research Commission. Frankfort, Kentucky. January 2003.

⁵ *ibid*

Ad Valorem⁶: The ad valorem valuation method is based on the fair market or highest and best use value of the property. This type of property taxation includes the value of the standing timber on the property, although some states have referred to their method as ad valorem without including the timber in the property assessment. Currently, around ten states use this tax rate. Among the most common complaints against the ad valorem tax is that the land and timber are taxed year after year, resulting in multiple taxing of each year's timber growth. Another complaint is that the tax is levied against unrealized income. This forces the landowner to bear all the risk of growing the timber while still providing revenue to the taxing jurisdiction. This is most likely an undesirable alternative for Virginia forestland owners.

Current Use Taxation⁷: Also known as “productivity” taxation, these programs use valuation methods other than fair market value. Virginia, along with 30 other states, currently uses current use taxation valuation methods. This tax is based on the current use of the property, not the highest and best, and is often coupled with a severance or yield tax upon timber harvest. (Virginia has a severance tax on timber that has been used to fund the Reforestation of Timberlands program). Using this method, timber volume (by species or productivity class) is multiplied by stumpage price to arrive at a value for the property based on the forest's potential to produce revenue. A current use valuation program usually employs one of two broad valuation mechanisms. Either the tax is based directly on the annual growth of the forest, or the tax is based on the gross or net mean annual income of the parcel as a function of annual growth. According to some researchers, this taxation method is the best for forest management. One problem often raised with this method is that because the tax remains constant and based on soil productivity values, different stocking values would elicit the same amount of tax.

Flat Property Tax: Several states use this method to tax all forestland at a flat rate per acre. This tax has little effect on timber rotation and is easy to administer (requiring no calculations or evaluations). It provides a stable source of revenue and it is easy for the public to understand. However, one problem with using a flat property tax rate is that it places a heavier burden on less productive land.

Exemption: In many states, exempting forestland from property taxation is used as an alternative to the above methods of valuation. Alaska, Delaware, Iowa, and New York all have complete or partial exemptions. This method is rarely adopted and carries with it problems relating to revenue generation for the state.

⁶ Hibbard et al. “Property Tax Programs Focused on Forest Resources: A Review and Analysis”. Staff Paper Series 150. University of Minnesota College of Natural Resources. January 2001.

⁷ *ibid*

Case Example Review of State Programs

The states below were selected using the following criteria: 1) each state represents different types of tax structures with unique design elements, 2) each program has been proclaimed as at least partially successful in achieving policy objectives, and 3) each represents different areas of the country.

State 1: California⁸

Program: Enforceably Restricted Land Program and the Open-Space Program

California real property is assessed at its full cash value; however, three special taxation programs may be applied to specified forested lands; the Enforceably Restricted Land Program, which establishes Timberland Production Zones (TPZs); the Agricultural Preserve or Open-Space Program; and the Timber Yield Tax. The first two programs are exclusive of each other, while the third applies to all forest lands. Note that the program involving TPZ is a zoning program whereas the Open-Space Program is a more traditional current use program.

Requirements: Timberland Production Zone land, designated by the county board, must be devoted to timber production and be capable of growing 15 cubic feet of wood fiber per acre per year. The zoning designation requires a management plan and adherence to the state forest practice rules. To be considered for the Open Space program, forestland must be in an agricultural preserve with its use restricted for a minimum of ten years. State forest practice rules are mandatory, but there is no requirement for a management plan.

Valuation Technique: The methodology for TPZ land valuation is mandated by statute and the values are assigned for three regions, each containing five site classes. The statute concerning land values is updated based on changes in five-year average stumpage values. Open space forestland is valued using an income capitalization method or current use formula similar to Virginia's. All forestland is currently subject to a 2.9 percent yield tax in California. The yield tax does not apply if the harvesting is for personal use or the value of the harvesting in any fiscal quarter is less than \$3000.

Withdrawal Penalties: The TPZ program is a ten-year rolling program. The owner may request rezoning, which results in no penalty; however it requires county board approval and a ten-year period before the use of the land can change. If the landowner requests immediate rezoning with land use change, upon approval, the landowner must pay a tax recoupment fee that is in excess of the difference in annual taxes. There is no penalty for nonrenewal of the Open-Space program ten-year contract; however, if the landowner cancels the contract there is a cancellation fee of 12.5 percent of the fair market value of the parcel, and a tax recoupment fee similar to the TPZ fee.

⁸ Kilgore et al. "Property Taxation of Private Forests in the United States: A National Review". Journal of Forestry. April/May 2003.

Assessment: According to the Northern Forest Land Council's Forest Taxation Project, state officials claim administration of the program is efficient. The TPZ program improves long-term economic viability of forest management, but may well transfer or increase development pressures onto non-TPZ land. Romm et al. (1987) observed that a high percentage of nonindustrial private forest lands had been excluded from the TPZ's, lessening the incentives on these lands for forestry investment.

State 2: Georgia⁹

Program: Along with Alabama and Oregon, Georgia has the most total acreage of forestland in the country. Georgia classifies land into ten categories. Forestland in Georgia is generally classified in three ways: agricultural property, conservation use property, or environmentally sensitive property. Forestland may be valued for taxation purposes in a few different ways. If it qualifies as conservation use property or environmentally sensitive property, forestland may qualify for the preferential assessment program or it may qualify for current use valuation.

Requirements: All three programs or classifications have a maximum acreage limit of 2,000 acres. Unlike most other states, this limit applies to the owner not the parcel, meaning the owner cannot enroll more than total of two thousand acres of land into the program. All three programs also require the applicant to be a natural or naturalized citizen. Environmentally sensitive land must be certified by the Georgia Department of Natural Resources before classification. To qualify as conservation use land, the land must be used primarily in the production of timber, yet the law allows up to 50 percent of the land to lie dormant at any one time.

Valuation Mechanism: Property under the preferential assessment program is valued at 75 percent of its fair market value. This is instead of the standard valuation at 100 percent of fair market value. Conservation use and environmentally sensitive lands use a "current use" valuation in determining an assessment. This valuation is a combination of an ad valorem valuation and an income capitalization valuation. Sixty five percent of the value is based on a five-year weighted average of per acre income from both hardwood and softwood in the state. Thirty-five percent of the valuation is based on market studies of sales data of comparable lands. These values are determined annually at the state level of nine productivity classes in nine regions. Standing timber is exempt from property taxes, but is assessed at 100 percent of its fair market value at the time of harvest or sale.

Withdrawal Penalties: The conservation use and environmentally sensitive property upon approval of application is entered into a ten-year agreement. If the land use changes or other requirements of eligibility are violated, the county will levy a penalty consisting of rollback taxes, interest, and depending on time of the withdrawal, additional penalties. This penalty applies to the total parcel, even if the violation only involved a portion of the parcel.

⁹ ibid

State 3: Minnesota¹⁰

Program: Minnesota employs a combination of taxes that apply to forest lands: an ad valorem tax, a productivity tax, and a flat tax with a yield tax. Minnesota has a unique property tax system that is meant to hedge against the general regressive nature of a property tax. First, Minnesota has a multi-tiered property tax rate structure, meaning different land types or land uses are taxed at different rates and certain amounts of value are also taxed at different rates. For instance, the first 75,000 of market value of a residential homestead is taxed at 1.0 percent, whereas the market value that exceeds \$75,000 is taxed at 1.7 percent. This, at least in theory, is to correct for the regressive nature of the property tax, as the property tax is not well based on the taxpayer's ability to pay. Second, the tax is complemented by a progressive property tax refund system. Within this system, the refund amount to the taxpayer is equal to the amount that their property tax exceeds a certain percentage of the landowners' or renters' income.

Valuation Mechanism

Ad Valorem. The most common and well-known property tax type in Minnesota is the ad valorem tax. Different rates, established by state statute, are applied to different classes of property. The 2b classification is that for timberland; however timberland may be classified as 2a if it is part of a farm. Currently, more than 1.8 million acres of property are enrolled in the 2b classification. The law, which governs the classification system, states that real estate in class 2b, must be used exclusively for the growing of trees. Though this definition seems fairly clear-cut, it was found that there is much room left for interpretation by assessors as to how land is classified. The class rate for 2b land is 1.2 percent. This rate, which is determined by state statute, is then multiplied by the market value of the land. The market value of each parcel is determined by the county assessor annually, basing the valuation of the parcel on recent sales of similar property. Once the class rate is multiplied by the market value, this product is multiplied by the local tax rate. The local tax rate is the sum of all tax rates from the districts that contain the specific parcel. This is determined by the county auditor who divides the dollar amount of the levy by the total taxable valuation. The ad valorem tax formulation is as follows: Estimated Market Value x Class Rate x Local Tax Rate = Tax Payable.

Minnesota Tree Growth Tax. The Minnesota tree growth tax, similar to the auxiliary forest tax, is in lieu of ad valorem property tax. This tax is based on the value of the annual timber growth on a parcel of land. Individual counties may choose to adopt this program, although some are currently closed to new enrollments. The program requires that a parcel be a minimum of five acres and that the landowner must submit an application to the county board including the following items:

- A legal description of the property
- A map of the forest types present on the parcel
- A statement of intention to reforest temporarily nonproductive land

¹⁰ ibid

- A signed and sworn statement that the land will be used exclusively for growing continuous forest crops in accordance with sustained yield practices and will be open to the public for fishing and hunting

After the parcel meets the above requirements, it is classified into one of three categories provided in the law: a commercial forest type, a temporary nonproductive forest type, or as permanently nonproductive land.

The commercial forest type category is defined as able to produce at least three cords of pulpwood or sawlogs per acre or that the parcel contains 500 stems per acre. Tax for this classification is calculated at 30 percent of the value of the estimated average annual tree growth for each forest type contained on the specific parcel. The growth rate for each forest type is determined by the local county board every ten years and is based on Minnesota Department of Natural Resources and US Forest Service survey data. The stumpage value is calculated biennially, in the even years. This value is based on timber sales receipts on state land in the specific county over the previous two years. The formulation is as follows:

$$\text{Growth Rate (cords/acre)} \times \text{Stumpage Value/Cord} \times 0.30 = \text{Tax Payable.}$$

The temporarily nonproductive forest type is defined as capable of producing, but does not presently contain sufficient volume to be classified as a commercial forest type. The land is taxed at a flat rate of \$0.05 per acre per year. The tax is levied with the stipulation that the owner must agree to reforest within ten years. If the owner fails to reforest within the ten-year period, the owner is then levied a tax of \$0.15 per acre per year. This classification also provides for a tax credit of \$0.50 for each acre planted and maintained with a minimum of five hundred trees. This credit may be taken annually for up to ten years. Many counties require landowners to sign an agreement relinquishing their right to this credit (Baughman 2000).

The Permanently Nonproductive Land is defined as unsuitable for growing commercial forest types. The tax for this classification is \$0.05 per acre per year.

Withdrawal Penalties. Should a landowner decide to withdraw from the tree growth tax program a penalty of the difference in taxes between the ad valorem system and the tree growth program is assessed for up to ten previous years of enrollment. In comparing the ad valorem system and the tree growth tax program, for payable 1998 figures, the state average tax for the 2b timberland classification was **\$2.18 per acre**. It is important to note that these are averages.

Assessment. There are a number of problems with the forest taxation programs in Minnesota. The counties may choose to adopt the Tree Growth Tax Law, and given the chance, only ten counties have chosen to do so. This is already a significant problem for forestland owners in Virginia. Complicating matters, these counties have all added additional requirements or closed the program to new entrants. This results in a lack of equity in the taxation of forestland on a statewide basis. Another problem is that the Tree

Growth Tax Law, which is supposed to provide a tax reduction to qualifying forest property owners, in some cases actually results in higher taxes than the normal ad valorem classification would. This is due to the steep increases in stumpage prices over the last ten years.

State 4: New Hampshire

Like Virginia, New Hampshire uses a current use valuation method to assess property taxes on forestland.

Requirements. In order to have land considered under the Current Use Law for reduced valuation, the parcel under consideration must be greater than ten acres, able to produce an annual gross income of at least \$2500, or be designated as a Certified Tree Farm. These requirements are very inclusive and, if implemented in Virginia, would address the problem of inequity in the Commonwealth's current statute that leaves it up to the county to adopt current use taxation. In New Hampshire, a management plan is not required but is often used as documentation of "responsible land stewardship". This additional classification of practicing responsible land stewardship reduces the "current use" value by about 50 percent. New Hampshire also allows a 20 percent reduction in land valuation if the landowner allows year-round nonmotorized public access.

Administration. The landowner applies to the local assessor for current use assessment. The Current Use Board, a statewide entity, annually establishes a schedule of taxable current use values. The Department of Revenue Administration administers and enforces all other aspects of the program.

Valuation Mechanism. The land is valued according to a schedule of taxable values set by the Current Use Board. These values are based on an income capitalization method for timber production. These values are broken down into four cover type classifications. Each classification is given two values, one reflecting the added costs of "responsible land stewardship". The value may then be further reduced if the landowners allow public access. The value is then subject to the local property tax rate. This law is accompanied by a yield tax of 10 percent of the stumpage value.

Penalties. If the owner is changing the land use to a nonqualifying one, the penalty due is 10 percent of the fair market value of the parcel.

Assessment. An assessment of certain program elements was documented in interviews conducted by the Northern Forest Lands Council (1994) forest taxation project. Most persons interviewed found the program ineffective as a deterrent to land conversion, and a problem in that there is no direct reimbursement mechanism from the state to county governments. However, New Hampshire is an example of state statute that sets very minimum requirements for its forestland owners to qualify for current use taxation.

State 5: Wisconsin¹¹

Program: The Managed Forest Land tax program is different from others discussed in that it establishes a tax burden rather than setting taxable values. It is a flat tax with a small penalty for closing private forestland to public access. In addition, there is also a yield tax of 5 percent of the stumpage value.

Requirements: The minimum parcel acreage allowed is ten acres with 80 percent of that land required to be suitable for timber production. The program requires a management plan and public access, of which 80 acres may be exempted from the public access requirement by the landowner for an additional cost. The landowner must enter into a 25 or 50-year contract.

Valuation Mechanism: The land is taxed at one rate set by state statute. The current rate is \$0.74 per acre per year. An extra \$1.00 per acre per year is paid for land closed to public access.

Withdrawal Penalties: The penalty for withdrawal is the greater of: 1) the difference in what taxes would be owed according to the ad valorem system and taxes actually paid while enrolled in the managed forestland program multiplied by the number of years since entry into the program, or 2) 5 percent of the stumpage value. Fifty percent of any penalty paid is disbursed to the Wisconsin Department of Natural Resources and 50 percent is given to the county containing the parcel.

Assessment: The Managed Forest Land tax gives landowners substantial tax savings and promotes the management of forested lands. However, the yield tax has become an administrative nightmare, costing the state two and half times what it brings in. Studies by Barrows and Rosner and Stier (1992) found the most frequent reason for not enrolling in the program was the public access requirement, but this was amended to allow 80 acres for exemption of public access. Another reason given for a lack of enrollment was concern about the penalty, which can exceed the actual land value. This is seen as a strong disincentive to participation.

State 6: Indiana

Program: Classified Forest Program

Requirements: A minimum of ten contiguous forested acres is required to enroll in the program. In order to qualify for the program, the forestland must support a growth of native or planted trees which have been set aside for the production of timber and wildlife, the protection of watersheds, or the control of erosion. Land enrolled in the program cannot be cleared, developed, or used in any fashion that disturbs the natural wildlife or productivity of the forestland. Land enrolled in the Classified Forest program must follow minimum

¹¹ *ibid.*

standards of good timber management. The landowner must also follow a written forest management plan that is approved by the district forester. This plan should describe the forest in its present condition, provide goals that will match the objectives of the owner, and must also be revised at times as the land develops and the landowners' goals change.

Valuation Mechanism: Enrolled forestland owners pay \$1.00 per acre in property taxes on enrolled forestland. This helps alleviate the property tax burden on forestland, freeing up funds for landowners to reinvest in their property or use as extra income. As another benefit to landowners, regular forest inspections are provided by a professional forester in order to maximize land productivity and health.

Withdrawal Penalties: In order to withdraw land from the program, the landowner must contact a county real estate assessor in order to determine the amount of property taxes that would have been paid had the property not been enrolled in the program. The difference between the two property tax rates must be paid by the landowner up to but no more than ten years with an additional 10 percent on top in interest.

Assessment: The Indiana Classified Forest program is among the nation's most thriving and longest running forest stewardship programs in the United States. The qualifications for enrolling in the program are not strict and the requirements allow for both small and large forestland owners to enjoy the tax break. Regardless of what county a citizen of Indiana owns forestland in, every qualifying landowner pays a standard, reasonable, and flat property tax rate that rewards the landowner for good stewardship. It is important to note, however, that Indiana is only 22 percent forested, compared with over 60 percent in Virginia. The requirements and restrictions of the Classified Forest Program are relatively lax and the property tax rate is so low because the cost of the program itself is much smaller than it would be in state like Virginia.

State 7: Michigan

Program: Commercial Forest Program (CF)

Requirements: A minimum of 40 contiguous forested acres (land managed for Christmas trees not eligible). Land must be devoted to commercial forest management. The landowner must also have a forest management plan written by a registered forester or forestry professional. Land enrolled in the Commercial Forest Program cannot be used for agriculture, mineral extraction, grazing, industry, developed recreation, residences, resorts, commercial purposes, or development purposes. Lands listed in this program *must be open to the public for hunting and fishing*. These lands are private lands under the control of private owners, who through the Commercial Forest Program allow the public the privilege of hunting and fishing. The right for the public to hunt and fish on these land does NOT include the right to camp, destroy brush, construct blinds, or use ATV's or other all terrain vehicles where prohibited

Valuation Mechanism: Enrolled forestland owners pay \$1.10 per acre annually in general property taxes. This flat rate is a significant reduction from the property tax rate calculated under the normal *ad valorem* evaluation. Additionally, the State of Michigan pays \$1.20 per acre annually to each county where land is listed in the program.

Withdrawal Penalty: Landowners wishing to withdraw from the CF program can do so by submitting an application to Michigan's Department of Natural Resources. A withdrawal penalty will be assessed using *ad valorem* information provided by the county or local governments.

Assessment: The mission of the CF program is to reward private forestland owners for providing the residents of Michigan with aesthetic beauty, clean air, clean water, and a variety of other public benefits that come from healthy forestland. Landowners enrolled in the CF program enjoy a significantly lower property tax rate on qualifying land than land assessed using the normal *ad valorem* method. In return, however, enrolled landowners must provide a very tangible and concrete service for the public: recreational access to their private forestland. The citizens of Michigan subsidize this tax break for private landowners and, in return, gain access to privately owned pristine wilderness. This unusual *quid pro quo* makes it easier to sell the public, yet it is understandably the most frequent objection to the program. While the stipulations of the CF program call for the public to hunt and fish *responsibly* on private lands, this certainly does not always happen. While the majority of hunters and fishers act as proper stewards of Michigan's environmental heritage, there will always be the occasional outdoorsmen who litters, destroys trees and other plant life, and generally disrespects private property. Nonetheless, unusually high property tax rates in Michigan make this program an attractive incentive for landowners.