



CURRENT USE VALUATION PROGRAMS: Property Tax Incentives for Preserving Local Benefits of Forests

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SUMMARY

- This paper explores current use valuation programs as one tool for conserving and fostering sustainable management of southern U.S. forests under private ownership. The brief identifies key constraints on existing programs and suggests measures that could be implemented to enhance program effectiveness.
- As a result of rising property taxes on lands under development pressure, nonindustrial private forestland owners in the South often resort to selling all or a portion of their properties to pay tax bills. Rising property taxes also reduce the profitability of timber production and induce corporate and industry landowners to engage in real estate sales as an alternative activity.
- Current use valuation programs are one way that states and counties in the South are encouraging landowners to forgo unwanted development sales. Under these programs, enrolled forest and agricultural lands are assessed not at their fair market value but at their value for current uses. This lowers the tax bill for landowners, improves the profitability of timber production, and helps reduce development pressure.
- Though current use valuation programs in one form or another are authorized by statute in all southern states, the programs' general implementation and programmatic effectiveness is often limited by perceived negative fiscal impacts, minimal economic benefits to landowners relative to conversion, land speculation, and lack of promotion of sustainable forest management.
- With respect to fiscal impacts, research shows that while current use valuation programs may cause a short-term loss of revenue, preserving these lands can actually result in positive, long-term fiscal benefits. This is because the cost of providing community services and public infrastructure on lands converted to residential use often exceeds the property tax revenues generated. Making counties more aware of this fact can help overcome reluctance to offer current use valuation.
- Changes that can increase the overall implementation and programmatic effectiveness of current use valuation programs include state reimbursement funds for short-term reductions in tax revenues, longer covenant terms, allowances for ecosystem service management, and the inclusion of marginal or idle cropland transitioning into forest.
- With these modifications, current use valuation programs can be a tool for not only keeping forest as forest but also stimulating a wide range of beneficial management activities, such as reforestation and management of ecosystem services.
- This brief is designed to inform state, county, and municipal decisionmakers; land-use planners; and other stakeholders working to conserve and sustainably manage forests.

MODIFICATIONS TO CURRENT USE VALUATION PROGRAMS HAVE THE POTENTIAL TO CONSERVE AND RESTORE FORESTS

Spanning approximately 214 million acres (Smith et al. 2009), the forests of the southern United States provide a number of ecosystem services that benefit communities throughout the region (Hanson et al. 2010). For instance, these forests purify water, regulate the timing and magnitude of water

runoff and water flows, provide recreational opportunities and scenic vistas, and mitigate the effects of global warming by sequestering carbon. Southern forests are also among the most biologically diverse temperate forests in the world (Trani 2002).

However, as profiled in *Southern Forests for the Future* (Hanson et al. 2010), the forests of the southern United States face a number of threats to their extent and health, including permanent conversion of forests to suburban development and lack of beneficial management activities, such as thinning and prescribed fire, to prevent southern pine beetle outbreaks. Unabated, these threats will reduce the number and value of ecosystem services southern forests provide and undermine the health and vitality of communities that rely on these services.

One of the factors leading to conversion is high property taxes in rapidly developing areas. For landowners who otherwise want to keep their forests intact, rising property taxes can encourage woodland owners to sell off parcels to cover their tax bills. High property taxes also reduce the profitability of timber production. In addition, high property taxes are a signal of high prices for lands being developed, which dramatically increases the opportunity costs of holding on to forestland for conservation uses. According to a 2011 study on the federal, state, and local effects of taxes on family forest owners, property taxes are the taxes of greatest fiscal concern (Butler et al. 2010b).

One approach southern states and counties have used to help alleviate tax pressures to convert land is current use valuation—a property tax break for keeping working lands,

such as forests, and open space in their original land use.¹ By enrolling lands in current use valuation programs, landowners are better shielded from rising property taxes when nearby development encroaches. While current use valuation programs are ubiquitous throughout the South, concerns over fiscal impacts, land-use speculation, burdensome management requirements, and misunderstandings about enrollment requirements hinder effective implementation. Retooling current use valuation programs to deal with these limitations may enhance program effectiveness in protecting and restoring southern forests.

However, even if programs are modified to address these limitations, the property tax benefits they offer to landowners are not a silver bullet for protecting forests, because the financial gain associated with the sale of forestland for development is often far too attractive (Butler et al. 2010b).² As result, current use valuation programs could be further enhanced when coupled with other landowner incentive programs, such as payments for watershed services (Hanson, Talberth and Yonavjak 2011).

This issue brief explores current use valuation as part of the World Resources Institute's (WRI) *Southern Forests for the Future Incentives Series* (Box 1). In particular, this brief addresses the following questions:

Box 1

About the Southern Forests for the Future Incentives Series

Over the coming decades, several direct drivers of change are expected to affect the forests of the southern United States and their ability to provide ecosystem services. These direct drivers include suburban encroachment, unsustainable forest management practices, climate change, surface mining, pest and pathogen outbreaks, invasive species, and wildfire. In light of these drivers of change, what types of incentives, markets, and practices—collectively called “measures”—could help ensure that southern U.S. forests continue to supply needed ecosystem services and the native biodiversity that underpins these services? The *Southern Forests for the Future Incentives Series*, available at www.SeeSouthernForests.org/issue-brief, explores several such measures.

The series follows the U.S. Forest Service convention of defining “the South” as the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia. Furthermore, the series is premised on the fact that southern U.S. forests provide a wide variety of benefits or “ecosystem services” to people, communities, and businesses. For example, these forests filter water, control soil erosion, help regulate climate by sequestering carbon, and offer outdoor recreation opportunities.

This series follows and builds upon *Southern Forests for the Future*, a publication that profiles the forests of the southern United States, providing data, maps, and other information about their distribution and makeup, condition, and trends. It explores questions such as: Why are southern forests important? What is their history? What factors are likely to impact the quantity and quality of these forests going forward? The publication also outlines a wide variety of measures for conserving and sustainably managing these forests. The *Southern Forests for the Future Incentives Series* delves deeper into some of these measures.

For additional information about southern U.S. forests, visit www.SeeSouthernForests.org. Developed by WRI, this interactive site provides a wide range of information about southern forests, including current and historic satellite images that allow users to zoom in on areas of interest, overlay maps that show select forest features and drivers of change, historic forest photos, and case studies of innovative approaches for sustaining forests in the region.

- How are rising land values and property taxes affecting southern forests?
- What is current use valuation, and how is it being applied in the South?
- What are the limitations on existing current use valuation programs?
- How can current use valuation programs be modified to better serve as a tool for conserving and sustainably managing southern forests in the decades ahead?

This brief is designed to inform state, county, and municipal decisionmakers; land-use planners; conservation organizations; and other stakeholders working to conserve and sustainably manage forests.

FAIR MARKET VALUATION CAN INCREASE CONVERSION PRESSURE AND REDUCE INCENTIVES FOR SUSTAINABLE FOREST MANAGEMENT

In areas subject to pressures from urbanization, industrialization, or other forms of development, lands often have market values that exceed the values if maintained as farmland, forest, or open space. If these higher market values are reflected in increased property value assessments and taxes, as they should be under a fair market value property tax, the affected rural lands are likely to be converted to more intensive uses, like residential or commercial development. This conversion occurs in part because landowners often pay for increased tax bills by selling land, and because agriculture and forestry uses become less economical to maintain relative to development (Newman, Brooks, and Dangerfield 2000; Wear and Newman 2004).

Fair market value taxation levies taxes on landowners based on the “highest and best use” of the land (Box 2). Traditionally, fair market value taxation has been used by municipalities and counties as a means to maximize the value of land and, as a result, municipal and county property tax revenues to pay for community services such as schools and roads. In rapidly developing residential areas, rising land values on surrounding agricultural lands, forests, and open space increase county tax revenues under a fair market valuation system. This encourages the conversion of these lands to suburbs, because the economics of maintaining the lands in their current uses worsens.

Higher property taxes can drive forest conversion on nonindustrial private forestlands as well as corporate and industry lands. Because taxes are a cost of doing business, the profitability of timber production on corporate and industry lands decreases

as fair market values for the land and associated property taxes rise. These taxes, coupled with additional taxes that may apply to the value of timber or timber yield, are one factor that may prompt corporate owners to turn to real estate sales rather than timber production to maximize revenue. Of course, real estate sales are also driven by rising land values, which makes conservation uses less economical relative to development or liquidation as a source of income. Experience has shown that it is not uncommon for forestland to take on a value for some development-related use that vastly exceeds its value for continued timber production. As Alig and Plantinga (2004) found, “[f]or 473 counties in the Southeast, the weighted average land value of forestland for continued forest use was determined to be \$415 per acre as compared to \$36,216 per acre in urban use—the latter being 87 times higher.”

Wear and Newman (2004) studied how this process was unfolding in Georgia. They found that for the most part, land prices often signal development activities before they occur because such prices are “forward-looking.” The authors found in general that the economic benefits of selling lands for development exceeded the benefits of managing land for southern pine timber production, when underlying land values surpassed \$800 per acre. The authors also modeled conversion rates as a function of land value. They found that from 6.4 to 16.7 percent of total industry timberland was likely to be converted to development when land values hovered in the \$600 to \$800 per acre range.

CURRENT USE VALUATION PROGRAMS CAN RELIEVE TAX PRESSURE ON FOREST AND AGRICULTURAL LANDS

To prevent or slow the pace of tax-induced development, most states have enacted current use valuation statutes (Box 2). In this paper, the term “current use valuation” is a broad label used to describe several different specific configurations of current use valuation programs, such as preferential taxation. Although specific requirements vary, these statutes generally establish programs that permit farmlands to be taxed according to their value for raising crops or livestock, forestlands to be taxed according to their value for growing timber, and open space lands to be taxed according to their value as undeveloped rural acreage for ecosystem services such as recreation, scenic value, and water purification. In essence, “[t]he effect is to tie the taxable value of such properties to their income producing potential so that owners can, at their discretion, keep them in farm or forest use” (Gayer, Haney Jr., and Hickman 1987).

Box 2

Fair Market Valuation and Current Use Valuation

Fair Market Valuation is also known as “highest and best use” taxation. This is often referred to as market value based or fair market value systems. Market value is the price the property would sell for assuming that both the buyer and seller are unrelated, well-informed, and under no pressure to buy or sell the property. Market-based tax systems require that all property be assessed at full market value or some percentage thereof. However, some state constitutions do not have this requirement (Sexton 2003).

Current Use Valuation is also known as “differential” taxation or “preferential” taxation. These property tax programs often involve partial exemptions from taxation. Such designations provide landowners a tax break when their land use meets the criteria (such as soil productivity) for farm/agricultural land, timberland, open space, and forestland. The tax break takes the form of lower assessed property values. Specifically, current use valuation allows lands to be assessed at values commensurate with agricultural or forest uses rather than residential uses in areas where residential pressure is increasing.

All states in the nation have policies that reduce or eliminate property taxes for forestland, and 38 states have one or more tax incentive programs to promote timber management, open space, and other forest resource values (Butler et al. 2010b). Many state and local governments recognize that these programs help protect desirable land uses and a community’s quality of life by preserving natural landscapes that provide multiple economic, aesthetic, and social benefits (Polyakov, Daowei, and Dexton 2008).

Current use valuation programs first began in 1960 in Maryland (Sexton 2003). Since that time, they have evolved to take one of three forms: preferential assessment, deferred taxation, and restrictive agreements. Preferential assessment lowers assessed values on eligible land uses. Deferred taxation essentially exempts the property from taxation as long as the property is maintained for a specific use. Restrictive agreements are similar to deferred taxation, but the landowner must sign a contract specifying the types of activities that can occur on the land (Newman, Brooks, and Dangerfield et al. 2000). Specific tax program attributes vary considerably across southern states (Table 1).

Often, applications for current use valuation on forestlands must demonstrate ownership eligibility, the presence of a formal timber management plan, and a minimum acreage of enrollment. For example, in North Carolina, an applicant must be an individual or business with 4 consecutive years of ownership and enroll at least one 20-acre parcel that is managed in accordance with an approved timber management plan (North Carolina Department of Revenue 2009). Here and in other states, requirements may also include a physical inspection, a public hearing, submission of tax records, demonstration that the owner is generating a minimum level of revenue from forest management activities, and a minimum term of enrollment.

In addition, most programs have significant penalties for early withdrawal (Butler et al. 2010b). In order to remove a property from current use designation prior to the agreed-upon timeline,

Table 1

Select Attributes and Benefits of Preferential Property Tax Programs in the South*

State	Minimum acres	Mgmt. plan required	Timber Mgmt.** required	Enrollment period (yrs)	Withdrawal penalty	Estimated savings on property taxes
AL	5	Sometimes	No	No	No	>75%
FL	Variable	Sometimes	Yes	No	No	>75%
GA	Variable	No	No	10	Yes	50–74%
NC	20	Yes	Yes	3	Yes	>75%
SC	5	Sometimes	No	No	Yes	<25%
TN	15	Yes	No	No	Yes	50–74%
TX	No	Sometimes	Yes	No	Yes	>75%
VA	20	No	Yes	Variable	Yes	50–74%

* Considers attributes of preferential property tax programs alone. Preferential Property Tax Programs are defined as voluntary programs that obligate owners to certain provisions. These programs differ from other tax policies where landowners have no specific obligations. Southern states not listed do not have preferential tax programs as described by the authors.

** Some form of timber harvest management is required.

Source: Butler et al. 2010a

the landowner must pay a penalty and back taxes. Back taxes are essentially the difference between what was paid at the current use tax rate and what would have been paid had the property been taxed at the “highest and best use” plus interest. Back taxes date to when the property was enrolled, or a specified number of years, depending on the program. These penalties can make short-term current use classification costly.

Current use valuation programs can result in considerable tax savings to landowners (Table 2). Eighty-three percent of state administrators in the nation estimate their program reduces a landowner’s annual property tax burden by at least half (Butler et al. 2010b). Forsyth County, Georgia offers an illuminating example (Table 2). Consider a 100-acre parcel that has a fair market value increasing from \$195,000 to \$288,000 in 6 years—illustrative of a rapidly developing area. The landowner has enrolled in a current use valuation program, with a covenant term of 10 years. The program limits assessed value of the property to roughly half its fair market value. Taxes are applied to 40 percent of this assessed value at the going “millage rate,” which is the rate needed to cover the county’s budget, assuming an equal spread of the cost of government to all property owners.³ Tax savings due to current use valuation would gradually increase from \$886 to nearly \$1,500 per year.

Suppose the owner decides to breach the current use covenant and sell his or her land to a developer in year seven. Under the Forsyth County formula, the penalty for breach is calculated as five times the tax savings if the breach occurs in the first or second year, four times the tax savings if the breach occurs in the third or fourth year, and so on. Since the breach occurs in year seven, the penalty applied is two times the cumulative tax savings over 6 years, or \$14,785.

Some local governments implement current use valuation programs as a substitute for zoning. Instead of prohibiting conversion by restrictive zoning (i.e., zoning forest conservation areas that prohibit development), current use valuation programs attempt to accomplish the same result through tax incentives. Zoning regulations are often too flexible and do not resist market and political pressures to grant variances to allow development (New England Environmental Finance Center 2003). Current use valuation programs, on the other hand, are less flexible because they apply generically to all qualified landowners and involve contractual arrangements that are not easily altered. By restricting the geographic scope of lands where fair market valuation and associated development pressure come into play, current use valuation can serve as a more effective mechanism to slow down development in ecologically valuable or sensitive areas and direct development toward areas more appropriate for growth.

HOWEVER, CURRENT USE VALUATION PROGRAMS ARE HINDERED BY FOUR MAIN FACTORS

Although current use valuation programs are ubiquitous in the South, there are four main factors that limit the scale of their implementation to date and the overall effectiveness at the local level in preventing forest conversion and promoting sustainable forest management.⁴

1. Concern over fiscal impacts

Current use valuation is often thought to fiscally burden local counties and municipalities because of the forgone property tax associated with the assessment. Although some local governments are beginning to realize the full economic contribution of working lands, including forestlands, to the local economy,

Table 2		Tax Savings from Current Use Valuation in Forsyth County, Georgia					
Year	Millage rate	Fair market value	Tax due (On 40% FMV*)	Current use value	Tax due (On 40% CUV*)	Tax savings	Penalty amount
1	0.02150	\$195,000	\$1,677	\$92,000	\$791	\$886	\$1,772
2	0.02120	\$195,000	\$1,654	\$94,760	\$804	\$850	\$1,700
3	0.02280	\$260,000	\$2,371	\$97,600	\$890	\$1,481	\$2,962
4	0.02075	\$260,000	\$2,158	\$100,500	\$834	\$1,324	\$2,648
5	0.02170	\$260,000	\$2,257	\$103,500	\$898	\$1,358	\$2,717
6	0.02058	\$288,000	\$2,371	\$106,600	\$878	\$1,493	\$2,987
Total penalty:							\$14,786

* FMV = fair market value; CUV = current use value
 Source: Adapted from Kirkpatrick (2007).

many governments are still under the assumption that in order to balance budgets and continue economic growth, they must attract more development. Along with this assumption is the perception that open space is simply an interim land use and that residential development leads to lower overall property taxes (since there are more high-value properties to tax). Equity concerns add an additional complication. Lower property tax assessments and rates used to promote current use valuation are often criticized as having tax shifting effects, requiring other taxpayers—including those who do not own property—to cover the increased tax burden left behind when forests and open space are not taxed at their fair market value.

Concern over fiscal impacts has led many states and counties to put significant restrictions on the application of current use valuation programs. For example, many states have responded to the higher demand for current use valuation of timberland by increasing qualifying administrative requirements. According to Greaves (2009) “[p]aradoxically, after creating incentives for timberland, states have responded to the high demand for timberland classifications with burdensome administrative requirements to qualify for them.” For example, in Florida, it is up to the landowner to prove agricultural use based on several factors, and a taxpayer must renew his or her agricultural use classification annually. Much of this concern is the result of the dire financial situation of many localities, especially after the recent recession. County budget deficits make it difficult to implement measures that are even perceived to reduce public revenues.

2. Short covenant periods and weak penalties

A second factor that has limited the effectiveness of current use valuation programs is their relatively short covenant periods (generally 13 years (Butler et al. 2010b)) coupled with relatively weak penalties for withdrawal of land. Combined, these aspects have provided fertile ground for speculators. Current use valuation lowers the cost of holding land for speculators, who may qualify for the program and lease the land out to be farmed or managed for timber. Then, when the timing is ideal, the speculator will sell the land for development and pay the tax penalty, “which is not significant to a major development” (New England Environmental Finance Center 2003). Because of this, many current use property valuation programs—as currently designed—may not be an appropriate or effective tool against the loss of forestland (Hibbard and Kilgore 2001).

3. Low economic benefit relative to development potential

A third factor is the relatively small economic benefit to farmers and woodland owners relative to land sales, especially in areas with high development pressure. While current use valuation assessment programs have beneficial effects in delaying and reducing rates of conversion, the gains that can be made from development often prove to be too attractive to many farmers and small woodland owners, especially when they reach retirement age (Anderson 1993; Parks and Quimio 1996). As noted by Palyakov, Daowei, and Dexton (2008), “[a]lthough this type of taxation is often touted as an effective land use planning tool, it generally is not because the small incentives created in property taxation programs cannot measure up to the large amounts of capital realized upon sale or conversion of the land.”

4. Lack of sustainable forest management

A fourth factor is the lack of clear connection between current use valuation programs and improved forest management. Palyakov, Daowei, and Dexton (2008) found that productivity increases (i.e., forest practices that boost timber yields) are not encouraged except when policies provide an incentive for immediate reforestation or planting after harvest, as taxes remain the same for minimally stocked or well-managed lands that have high timber and ecosystem service values. They report that some states claim success in enhancing forest management through current use taxation programs, while other states note little change. Another important finding is that current use valuation programs for agricultural lands, as currently written, may actually slow the reversion of marginal agricultural land to forest. This is because to qualify for the tax benefit, farmers must show active use of enrolled farmland for agricultural production, and so letting these lands transition into woodlands jeopardizes these benefits. This effect may undermine goals of the Conservation Reserve Program and Conservation Reserve Enhancement Program, which attempt to reduce erosion and excess agricultural production by converting cropland to long-term, resource-conserving covers, such as forest or permanent grasses (Palyakov, Daowei, and Dexton 2008).

UNDERSTANDING THE OVERALL FISCAL BENEFITS OF CURRENT USE VALUATION PROGRAMS COULD HELP INCREASE THEIR APPLICATION

Protecting working forests, agricultural lands, and open space saves counties money by obviating or reducing the need for expensive infrastructure and the costs of servicing new residential subdivisions with fire and police protection, schools, and other

community services. Thus, to determine the net fiscal impact of various land uses, decisionmakers should compare received property tax revenues with expenditures for infrastructure and community services.

Cost of community services (COCS) research suggests that instead of draining local coffers, open space and working lands often have a positive fiscal impact. A 2007 American Farmland Trust meta-analysis of COCS studies, which quantify public spending on infrastructure and community services by land type, found that working lands actually generate more tax revenues than they require in public services. On the other hand, residential development requires an average of \$1.16 in expenditures for community services for every dollar raised through property taxes.

Another meta-analysis (Crompton 2001) examined 70 case studies throughout the United States and found that the median cost of residential development to counties was 15 percent greater than tax revenues generated by such development. Thus, if the annual tax yield to a community from a residential development was \$1 million, the median cost of servicing the development to be paid by counties or municipalities was \$1.15 million. The study also found that communities with larger and more rapidly growing populations appeared to experience

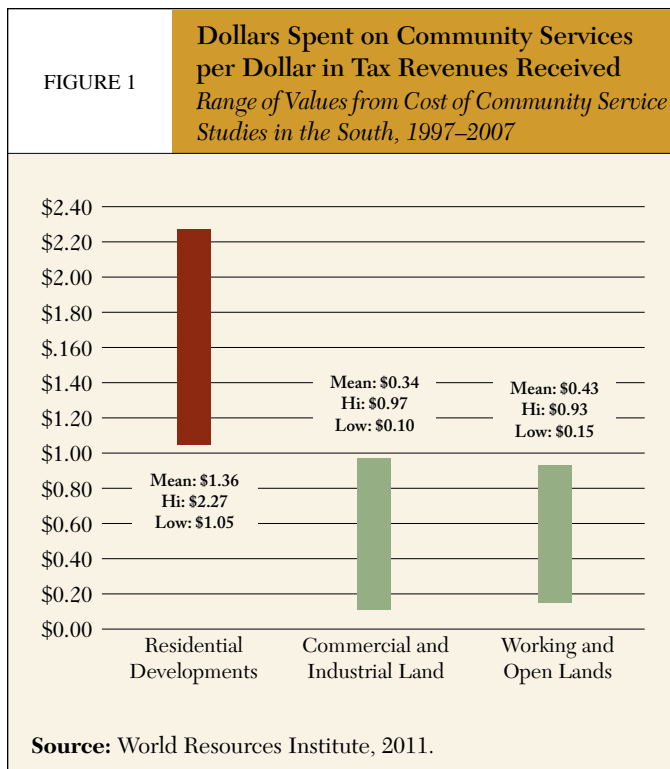
greater net deficits on their residential land than did communities with smaller, more stable populations.

Figure 1 summarizes results from 36 COCS studies in the South published between 1997 and 2007 (American Farmland Trust 2007). In each instance, the net fiscal impact of residential development was found to be negative (i.e., more than \$1 spent for every \$1 collected), while the net fiscal impact of working forests, farmland, and open space was positive. Studies in the South show that local governments spend on average \$1.36 for every dollar in property taxes collected from residential development.

For commercial and industrial land, average expenditures were \$0.34 per dollar collected. For working forests, agricultural lands, and open space, the mean was \$0.43 in community service expenditures per dollar. Thus, in terms of net fiscal impact, working forests can more than break even. To the extent that current use valuation programs keep working forests intact, they help reduce the long-term fiscal burden on counties associated with residential development. Increasing the application of current use valuation programs in the South, then, would involve making this case to communities concerned with potential fiscal impacts by implementing site specific COCS studies.

It is important to note that these COCS studies do not capture all of the fiscal or economic effects associated with different land uses. For instance, COCS studies do not consider the overall economic benefits a county may receive from land-use conversion, such as jobs, income, and sales tax revenues from increased economic activity. On the other hand, these studies do not consider the many ecosystem service benefits of forests and farmland, such as their role in reducing floods, purifying water, and providing recreational opportunities or scenery that boosts property values in areas shielded from development. Currently, very few studies have attempted to quantify the comprehensive benefits of forest-based ecosystem services. A 2011 study took the first step in quantifying the public ecosystem service benefits of 22 million acres of privately owned forestland in Georgia (Moore et al. 2011).⁵ The study reports the value of private forests ranges from \$264 to \$13,442 per acre annually, depending on the land's characteristics (Cooke 2011). In total, Georgia's private forests provide people other than the landowner with services estimated at more than \$37.6 billion per year.

Short-term fiscal impacts are also not addressed by COCS studies. For instance, before a parcel is developed, counties



receive a kind of tax revenue “bonus” from lands that are rapidly increasing in value but not yet developed. Because these lands are not yet developed, counties do not incur increased costs of community services, and so the increased tax revenues received by counties on these lands are particularly attractive to maintain. For lands enrolled in current use valuation, counties forgo this property tax bonus. In the Forsyth County example, by year six the county would forgo nearly \$1,500 in property tax revenues on lands that require only \$378 to service.⁶ Once the land was developed, however, this bonus would disappear as service costs rose dramatically. Nonetheless, some of the reluctance to offer current use valuation or make it easy to obtain may be due to these short-term fiscal considerations.

INCREASING CURRENT USE VALUATION PROGRAM EFFECTIVENESS

Demonstrating the fiscal case for current use valuation is one way to help increase the scale of its implementation in the South. Currently, 48 percent of state property tax administrators surveyed estimate at least half of the eligible forest owners who qualify for preferential tax treatment are enrolled across the country (Butler et al. 2010b). However, only one third of state administrators agree their property tax program contains the attributes of effective property tax policy (Butler et al. 2010b).⁷ Thus, states and counties can add a number of program features that could boost efficacy in promoting conservation and sustainable management of southern forests. Such features include state reimbursement funds to localities for short-term losses in revenues, longer covenant periods, broadening the definition of “active” management to include nontimber ecosystem services, and loosening restrictions on enrollment of marginal farmland.

1. A designated state reimbursement fund

Establishing state-level reimbursement funds that partially or fully offset lost county revenue is one way to address the short-term fiscal concerns counties may have over losing revenue and “bonus” revenues from forestland that is rapidly increasing in value. These reimbursement funds can be set up to target forestland alone rather than generic open space, in recognition of the significant public benefits associated with forest conservation.

Georgia has pioneered this approach. The state found that “[i]ntact forest lands supply a variety of resources—timber products, wildlife habitat, soil and watershed protection, aesthetics, and recreational opportunities. When forests become fragmented or disappear, so do the irreplaceable benefits they provide.”⁸ As

a way to maintain these benefits, the state recently passed the Georgia Forest Land Protection Act of 2008 (HB 1211), which extends current use valuation to larger tracts of forests that would otherwise not qualify under existing programs.⁹ As part of the new program, the state compensates counties from 50 to 100 percent of forgone property tax revenues associated with forests enrolled in current use valuation programs, depending on the severity of fiscal impact. In a 2009 analysis, Georgia counties reported just over \$19 million in lost revenues associated with enrollment of 3,946 properties.¹⁰ The state’s reimbursement will make up for these losses. From a fiscal standpoint, counties also benefit because they will not have to pay for increased costs of community services on these lands. Based on Georgia-specific COCS studies, affected counties may have avoided at least \$28 million in costs associated with servicing those same lands if they had been developed.¹¹ Thus, between the state reimbursement and the avoided COCS, the localities actually made a greater profit than they would have through increased residential development. This is the only reimbursement program offered by any southern state. The model could be extended throughout the South.

2. Longer covenant periods

In order to encourage sustainable forest management and timber production and discourage speculation, enrollment terms could be extended. According to a recent study, enrollment periods range from 2 to 50 years, with 13 years as the average for the nation (Butler et al. 2010b). Intuitively, it makes sense to extend the enrollment term to match a typical rotation period for timber harvest. Even for more intensively managed pine stands, this is generally in the 20 to 30 year range, depending on site conditions (Cassidy 2005). Shorter enrollment terms make timber production less attractive if the owner’s intent is to simply wait for the term to end before selling the land for development.

Although a 20-year commitment is longer than many minimum requirements for current use valuation programs, which average 13 years, it is much shorter than other enrollment terms for conservation, such as easements or carbon payment programs, which, depending on the standard, can require commitment periods between 20 and 100 years.¹² Georgia’s new legislation takes an important step by extending the enrollment term to 15 years. While this is shorter than a typical rotation period, other features of the program work in tandem to encourage timber production. In particular, landowners enrolling in the program must demonstrate documentation that the “[p]roperty has as its primary use the good faith subsistence or commercial production of trees, timber, or other wood and wood fiber products from or on the land.”¹³

3. Management for ecosystem services

One consistent feature of current use valuation programs for both agricultural and forestland is the enrollment requirement to demonstrate an income stream from these uses or provide some form of documentation that the landowner is actively engaged in commercial production. As noted previously, this is one of the administrative requirements counties put in place to make it more difficult for landowners to enroll. Often, that income stream is set at some minimum value. For example, Louisiana requires an average gross revenue of \$2,000 per acre per year for timberland enrolled on tracts less than 3 acres in size—an incentive to restrict enrollment for small parcels. South Carolina requires that enrolled lands less than 5 acres in size produce a minimum of \$1,000 at least 3 out of every 5 years. Other states do not require minimum income, but require some form of evidence that the land is being managed to maximize financial returns from forestry. For example, North Carolina requires that landowners show conformance with “sound management,” defined as land used for the “production of forestry products in a manner that maximizes the return from the land” (North Carolina Department of Revenue 2009).

These requirements tie the current use valuation tax break to wood products yield, thereby incentivizing this land use. However, the economic benefits of protecting southern forests extend well beyond their role in timber production. Forest protection generates significant economic benefit to southern communities, such as flood protection, clean water, recreation, scenery, nontimber forest products, carbon sequestration, and habitat for both game and nongame wildlife (Hanson et al. 2010). Although many of these ecosystem service benefits remain nonmarket in nature, they are no less important than the cash incomes generated from the sale of wood products. Given this, one way to enhance the effectiveness of current use valuation programs in promoting the conservation and sustainable management of southern forests is to relax cash income generation requirements and permit landowners to enroll their forestlands on the basis of ecosystem services generated.

For example, a landowner should be able to obtain current use valuation for her lands if she demonstrates that such lands generate measurable water quality benefits for downstream water users or provide habitat for game species sought by local hunters. Documenting these ecosystem service values would help counties understand the broader economic benefits of current use valuation programs and other forest protection programs, such as acquisitions, easements, or land-use zoning. Permitting landowners to enroll based on ecosystem service

benefits could make current use valuation more economical for the landowner, because requirements to produce cash income (and thus the costs incurred to do so) would be waived.

4. Extending current use valuation programs to promote afforestation on marginal farmland

An unanticipated result of some current use valuation programs for agricultural lands has been the slowdown or reversal of afforestation of marginal farmland (Palyakov, Daowei, and Dexton 2008). Farmers seeking current use valuation for these lands typically need to show active management for crops. However, throughout the South, afforestation is an important driver of change helping to offset forest acreage lost to development (Hanson et al. 2010). Moreover, lands that transition from cropland to forest help counties and states meet important water quality goals, especially with respect to nutrient pollution. Thus, retirement of marginal agricultural land or other idle cropland is an important environmental quality objective. Current use valuation programs, rather than hindering this objective, can help advance it by permitting farmers to enroll retired lands that transition back to forest either naturally or through active tree planting. According to the USDA’s Economic Research Service estimates from 2002, there are more than 11 million acres of idle cropland in the southern United States.¹⁴ This number fluctuates with prices but nonetheless indicates that afforestation is a potential for millions of acres in the South. Thus, modifying current use valuation programs to stimulate afforestation of these lands could play a significant role in increasing the extent of southern forests in the decades ahead.

CONCLUSION

Current use valuation programs provide southern forestland owners an incentive to leave forest as forest and help resist development pressure. Current use valuation programs are ubiquitous throughout the South, but the scale of their implementation and overall effectiveness is limited by local government concerns over fiscal impacts, short enrollment periods, weak penalties for covenant breaches, low returns to landowners relative to conversion, and weak links to ecological and sustainable forestry objectives. Cost of community service (COCS) studies and other forms of fiscal impact analysis are a tool states and counties can use to understand the long-term fiscal benefits of current use valuation. These studies demonstrate that by helping counties avoid infrastructure and community service costs of new residential developments, current use valuation programs can often save money in the long term.

Several changes to current use valuation programs as applied in the South could make them more effective. First, states can offer reimbursement funds similar to the one pioneered in Georgia to help alleviate county concerns over short-term fiscal impacts. Reimbursement funds can be targeted at forestlands specifically, rather than open space in general, to provide a more direct link between current use valuation and forest protection.

Second, states and counties can extend covenant terms to match the minimum rotation age for commercial forest management. Extending covenant terms to 20 years or more would ensure that lands protected under current use valuation programs would be of sufficient age to generate income streams from the sale of commercial forest products. Extending covenant terms would also help reduce speculation on lands enrolled for short periods.

Third, states and counties could increase the flexibility of current use valuation programs to allow landowners to enroll lands that provide important ecosystem service benefits but not necessarily cash income from the sale of forest products. Building in this flexibility would make it easier for landowners to enroll and help states and counties meet important ecological objectives. This flexibility would also improve the economics of maintaining land in current use valuation status relative to conversion, by saving landowners the expense of investing in timber or crops when they otherwise would not have chosen to do so.

Fourth, on agricultural lands, states and counties could encourage afforestation of marginal and idle cropland by removing crop income requirements for enrollment. Providing tax incentives to farmers who want to let these lands naturally transition back to forest could help increase the extent of southern forests by millions of acres in the decades ahead.

Making these changes to current use valuation programs could help alleviate fiscal concerns and bolster long-term effectiveness. In addition, these changes could increase the acreage of southern forest protected from development and instead managed for timber, water, habitat, recreation, scenery, and other ecosystem services increasingly important to the well-being of southern communities.

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ENDNOTES

1. See Hickman (2007) for further discussion of how “special” property taxes adopted by states have been useful as a means of discouraging the development of forestlands.
2. See Hickman (2007) for further discussion on reasons why current use assessment laws have been only partially effective in arresting the loss of forest and other open space lands.
3. For more information on Georgia’s millage rate, see <http://www.millagerate.com/blog/explained/>.
4. Other obstacles to participation are lack of awareness, negative impressions, misunderstandings, rejection of certain provisions, and philosophical objections. For more information, see Butler et al. (2010).
5. This study considered the value of six ecosystem services that provide external benefits to people besides the landowner or land user: gas and climate regulation; water quantity and quality; soil formation and stability; pollination; habitat/refuge; and aesthetic, cultural, and passive use. The authors did not consider the value of timber and forest products provision or recreation.
6. In the Forsyth County example, the current use value of the property is \$106,600, which generates \$878 in property tax revenues. Taking the South-wide average of \$0.43 per dollar collected as the cost of community services yields \$378 as the cost of these services on lands maintained as forest.
7. In a recent study by Butler et al. (2010), participants surveyed “called on states to strengthen the requirements of their preferential property tax programs and increase owner enrollment.”
8. For an overview of the Georgia Forest Land Protection Act, visit <http://www.gfc.state.ga.us/Spotlight/documents/GeorgiaForest-LandProtectionAct08.pdf>.
9. See note 8.
10. Georgia Department of Revenue. 2009. *Forest land conservation use assessment for 2009*. Local impact fiscal analysis for state, county and county schools. Hapeville, GA: Georgia Department of Revenue, Local Government Services Division.
11. Based on Georgia-specific cost of community services studies published by American Farmland Trust in 2007. Online at: <<http://www.farmlandinfo.org/documents/27757/COCS_09-2007.pdf>>.
12. As of the writing of this brief, the Voluntary Carbon Standard requires a 20-year commitment, the American Carbon Registry requires a 40-year commitment, and the California Climate Action Registry requires a 100-year commitment.
13. See note 8.
14. United States Department of Agriculture Economic Research Service, *Table 2: Cropland Idled, by Region and States, United States, 1945–2002*, 2002.

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