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Joint Fiscal Office

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Fiscal Note

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H.697 (Act 146) – An act relating to eligibility of reserve forestland for enrollment in the Use Value Appraisal Program

As passed by the General Assembly

As passed by the General Assembly:

<https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT146/ACT146%20As%20Enacted.pdf>

As passed by the House:

<https://legislature.vermont.gov/Documents/2022/Docs/BILLS/H-0697/H-0697%20As%20passed%20by%20the%20House%20Official.pdf>

Bill Summary

This bill proposes to authorize enrollment of reserve forestland as a new category of managed forestland in the Use Value Appraisal Program. This new category would not require forest crops to be actively grown and harvested. To enroll in the reserve forestland category, parcels with less than 100 acres must be composed of at least 50 percent significant and sensitive conditions, and parcels with 100 acres or more must be composed of at least 30 percent significant and sensitive conditions¹.

Fiscal Impact

JFO estimates that in Fiscal Year 2024, this would reduce Education Fund revenues by approximately \$75,000 and by less than \$50,000 in General Fund revenues.

Because JFO assumes that more parcels will join the program over the years, in 10 years JFO estimates this bill would approximately reduce Education Fund revenues by \$1 million, and by \$400,000 in the General Fund annually.²

This estimate is subject to considerable uncertainty, due to a lack of information and insight. JFO made a number of assumptions for many variables, any one of which could lead to significantly different estimates. These variables include but are not limited to: tax rate changes in future years, assessed value growth, number of eligible acres, per-acre use value assigned to these properties, and enrollment rates.

Absent any other changes in policy, the base homestead yield and/or base non-homestead tax rate would

¹ Significant and sensitive conditions must be in accordance with the minimum acceptable standards established by the Commissioner.

² This estimate assumes a 25 percent enrollment of eligible parcels over the next ten years.

need to be adjusted to counter the anticipated decrease in education funds.

Details and analysis

Background and Context

The Use Value Appraisal Program (UVA) began in 1980 with the intent to encourage and assist the maintenance, conservation, and preservation of Vermont’s agricultural and forestland. The program allows eligible landowners to pay property taxes based on the property’s “use value” instead of its fair market value. Use Values exist for agriculture land and forest land and are always lower than the fair market value. In 2021, approximately 2.54 million acres were enrolled in UVA, and the program cost the State a total of \$66.61 million. This cost is borne by both the State’s Education Fund and General Fund.

- The Education Fund forgoes revenues because the lower Use Value reduces Statewide Education Property Taxes collected. This was estimated to be \$49.38 million in 2021.
- The General Fund reimburses municipalities for the cost of reduced municipal taxes. This was approximately \$17.24 million in 2021.

Each year, the Current Use Advisory Board establishes the use value assigned to acres in the program. In 2021, forest land enrolled as part of the managed forest part of UVA had a Use Value of \$152 or \$114 per acre (depending on the acreage’s distance from the road), and enrolled agricultural acres had a Use Value of \$405 per acre.

Under current law, the managed forest portion of UVA is designed to promote best practices for timber management and harvesting. Owners of enrolled acres must submit a forest management plan every ten years which details the acreage’s tree inventory, forest conditions, and the owner’s plans to harvest trees. This bill creates a new category of managed forest within UVA called “reserve forestland” which is defined as land managed for the purpose of “attaining old forest values and functions”. Old forests are biologically mature forests that have native tree species in multiple ages and complex stand structures. Reserve forestland would not require the harvest of timber but would still require a forest management plan.

Analysis

The annual cost of the UVA program hinges on a number of factors, and, due to the program’s complexities, multiple assumptions must be made when estimating the fiscal impact of H.697. The number of acres that enroll in the program along with changes in the Use Values, tax rates, land values, and common levels of appraisal will have a direct effect on the fiscal impact of this bill. Unless mentioned otherwise, this analysis assumes these factors remain constant over the ten-year time horizon examines for this analysis.

Eligible acreage:

JFO relied on analysis from the Department of Forest, Parks, and Recreation (FPR) that estimated the number of eligible parcels for enrollment in the program.³ With the recommendation from the Senate Committee on Natural Resources and Energy, approximately 692,000 total acres are estimated to be eligible for enrollment in the reserve forestland category. However, of the estimated 692,000 eligible acres, approximately 533,000 are already enrolled in UVA and 159,000 are not enrolled. JFO estimates that of the identified parcels, approximately 159,000 acres would be potential enrollees following the recommendation from the Senate Committee on Natural Resources and Energy. However, to the extent that the number of eligible parcels varies higher or lower from this estimate, the fiscal impact may be substantially more or less.

Use value:

³ This analysis used GIS mapping and modeling, and, as such, is subject to some uncertainty.

A key incentive for enrolling acres in UVA is that acres in the program are valued based upon a pre-determined Use Value, rather than their assessed value. This Use Value, set by the Current Use Advisory Board each year, is always lower than assessed value.

This analysis assumes that the Use Value of the new category of forestland would be the same Use Value as the other categories within managed forestland. In 2020, this figure was either \$151 or \$113 per acre depending upon how far the acreage was from a road.⁴ This assumption is critical to the analysis for the 533,000 acres identified by FPR as eligible for the reserve forestland, but already enrolled in UVA. If the Use Value is the same as the Use Value for managed forest, there is no direct fiscal impact to acres switching from managed forest to the newly created reserved forest designation.

However, if the use value were to differ, the fiscal impact could significantly increase (or decrease) due to changes in enrollment incentives and/or cost per acre. If the Use Value for reserve forest is markedly lower than that of the managed forest, JFO expects there would be additional state costs to this bill because there would be an incentive for many of the already enrolled acres to switch to the new program and benefit from greater tax savings.

The bill as drafted does not require the new reserve forestland program to adopt the same Use Value as the existing managed forest program.

Enrollment:

In accordance with historical trends, JFO believes it unlikely that all eligible acres would enroll in UVA with the implementation of a new management category. However, it is unclear what percentage of parcels would enroll. Due to this unknown, the analysis assumes 25 percent of the eligible 159,000 unenrolled acres would enroll once the program is created. Because the fiscal impact is directly tied to the number of new enrollees in the program, a higher enrollment rate would result in a higher fiscal impact. The fiscal impact estimate assumes that of the 25 percent of acres assumed to enroll, approximately 10 percent would enroll each year.

This enrollment figure is based on Vermont data from US Department of Agriculture's National Woodland Survey. In 2018, 25% of acres were owned by owners⁵ who rated the importance of timber products as a reason for owning forestland to be "of little importance" or "not important".

Tax rates:

The ten-year fiscal impact assumes tax rate growth over the next ten years will follow the same tax rate growth observed over the ten years prior to Fiscal Year 2020. A compound annual growth was calculated for the tax rates over the past ten years, and then applied to estimate future tax rate growth. If tax rates were to be higher than estimated, so too would be the fiscal impact.

Cost per acre:

JFO estimated the fiscal impacts of this bill by analyzing the 2020 cost per acre for parcels in UVA managed forest on a town-by-town basis and applying it to the eligible but unenrolled acres for reserve forestland, after assuming the 25% enrollment rate.

If all 159,000 eligible but unenrolled acres were to enroll immediately, the maximum total cost is estimated to be approximately \$3 million in foregone Education Fund revenues and approximately \$1 million in General Fund costs. This estimate assumes 2020 property values, current use values, tax rates, and CLAs. Changes in any of these variables could result in significant changes to the estimated fiscal impact.

⁴ Note, this figure changes every year based upon the determination of the Current Use Advisory Board.

⁵ This estimate refers to owners who are in the "family" population and own at least 10 acres of land. Due to lacking Vermont specific data, "small corporate" and "large corporate" have not been included as owners.

As noted above, because JFO assumed an enrollment rate of 25% and the parcels enrolling over a ten-year period, the actual estimated impact is projected to be \$1 million to the Education Fund, and \$400,000 to the General Fund.

Sources

United States Department of Agriculture. 2018. “National Woodland Owner Survey Dashboard (NWOS-DASH)”. <https://ffrc.shinyapps.io/NWOSdashboard/>

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Act No. 205, Sec. 7: <http://www.leg.state.vt.us/docs/legdoc.cfm?URL=/docs/2008/acts/ACT205.htm>