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## Current Use Back On Drawing Board

Proposals for reform go to Joint Fiscal Committee

Long-anticipated revisions of the Use Value Appraisal (UVA) program – better known as “Current Use” – were proposed to a subcommittee of the Joint Fiscal Committee early in November. The revisions attempt to alleviate budgetary stresses caused, in part, by the program’s administrative complexity, and which have been exacerbated by the overall fiscal challenges facing a generally low-income state struggling to tread the waters of a global economy in turmoil.

With state budget deficits projected to hit \$160 million in 2012, the Legislature issued an order last June requiring a \$1.6-million cost reduction in the UVA program, specifically, by 2011. In May, just before that legislation was passed, an ad-hoc advisory group was put together by Rep. Alison Clarkson (House Ways and Means) and representatives from seven stakeholder groups, including the Vermont Land Trust and the Vermont Farm Bureau.

“The Legislature was going to save \$1.6 million from the Current Use tax policy,” says Clarkson. “The question was how. Instead of letting a bad idea [go into effect], the best idea was to put together a proposal that they could sink their teeth into, which is equitable and effective. We want strength in the program, we want it done fairly, and we want to further educate people.”

Clarkson, who chaired the task force that investigated the value and effectiveness of the Current Use program in 2007, has been working with the advisory group through the year - without pay - to make sure that the best possible package of reforms is offered to the Legislature in January.

### The Changes

Of four proposed changes, only two will significantly affect currently enrolled land. The most significant of the proposals, and that which most dramatically reduces costs, is to increase the “homestead exclusion” from two to five acres “for most residences.” The homestead exclusion, at present, dictates that two acres of land surrounding residences on enrolled properties are taxed at full fair-market value, while the remaining acreage of the parcel is taxed at its state-determined use value (be it agricultural use, timber-production use, or otherwise). This change will not be imposed on landowners who earn at least half of their gross income from agricultural or timber harvests.

To be most effective, this change must be enacted by mid-February so that it will apply to all enrolled properties beginning in fiscal year 2010-2011. This change alone is projected to generate \$1.6 million in savings to the state by 2011, as well as \$500,000 in increased municipal revenues.

The next major proposed change addresses complications in the taxation process which occur when a landowner develops enrolled land, or deviates from their state-approved management plan. If ever a landowner decides to change the use of any enrolled acreage, a “land use change tax” (LUCT) is levied on that acreage, both as a penalty for the landowner’s breach of contract, so to speak, and as a disincentive designed to keep developers in search of a temporary tax shelter from enrolling as-yet-undeveloped tracts.

Currently, the LUCT rate is determined by pro-rating the fair-market value of the developed land based on the recorded municipal assessment of the value of the entire parcel. Lands enrolled for less than 10 years are taxed at 20 percent of the pro-rated value, and those enrolled for more than a decade are taxed at 10 percent.

This method creates additional costs for the state, which is burdened with administering the formula from afar, collecting the taxes, and reviewing appeals to the assessments. Should the new proposal be passed into law, the municipalities in which lands are enrolled will assess the fair-market value of newly-developed acreage on enrolled parcels, charge a 10-percent tax regardless of the length of enrollment, and deliver 50 percent of those fees to the state.

Interestingly, this change is predicted to cause a decline in LUCT receipts to begin with, because the State will need to offer a grace period for landowners who wish to withdraw due to these changes in

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contract. Over several years, however, total revenues are expected to increase six to ten times the current amount, leveling out at around \$3.5-6.0 million per year.

The remaining changes are relatively minor but will, in combination, recoup another half-million dollars annually for the state. The property-transfer tax on sales of enrolled land will be raised from 0.5 percent to the normal 1.25 percent, and, temporarily, a \$25-per-parcel tax surcharge, capped at \$100 per landowner, will fund the implementation of electronic administration of the program statewide.

### **The Alternatives**

Rep. Janet Ancel, one of two Joint Fiscal Committee members charged with receiving proposals for meeting the cost-reduction requirements, has been watching the development of these proposals. "We had a public hearing in early November, and six people spoke. The only proposal we would have in front of us [without the work of the ad-hoc group] is a moratorium proposal."

A moratorium would mean that no new enrollments in UVA would be allowed for fiscal year 2010. There are a few problems with this method, including the de-facto revocation of new enrollment options passed this year, which target conservation of ecologically-sensitive areas and allow for more conservation-based forestry-management practices. "The significant problem is that it wouldn't save any money in 2011," Ancel says, which is the purpose of the Legislature's request for cuts. Because municipal-tax reimbursements are delayed for one year, effects from a moratorium would not be felt until 2012.

Barring either of these two options?

"I think we would be where we were last session," says Ancel. "Which was sort of re-do the Current Use program on the fly, which is not a good thing to do." Indeed - last session the general momentum in the Legislature was to cut the program by over \$3 million, which would require much more drastic and, likely, much less equitable reforms. It was largely through Clarkson's efforts early in the year that the compromise of a \$1.6-million target, and consequently this new set of proposals, was agreed upon.

### **The Next Step**

"To enact the changes to save this money," says Clarkson, "we have to act on it before town-meeting day." This is so that towns can adjust the changes on their own lists. "There are nine committees of jurisdiction for Current Use, but because this is a tax-policy piece, hopefully just the finance committees [will need to pass the bill to proceed to a general vote]."

First, there will be a public hearing before the House Ways and Means Committee on January 7 in Montpelier. Clarkson, who will be sponsoring the bill to Ways and Means, is now looking for witnesses to testify before the committee as to the importance of the program. "[Many people] in the State House look at UVA and see a \$44-million cost," she says. "What I see is that it has a \$4-billion economic impact when you [consider] all the product that is sold or manufactured [from enrolled lands], the jobs and income, and tourism. Current Use is the reason we have a working landscape that resembles what it looked like 200 years ago."

For more information about the proposals, go to [www.vlt.org/current-use.html](http://www.vlt.org/current-use.html)

For more information on the January 7 hearing, contact [aclarkson@leg.state.vt.us](mailto:aclarkson@leg.state.vt.us)

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