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**FARMLAND PRESERVATION IN CACHE VALLEY:
PURCHASE OF AGRICULTURAL CONSERVATION EASEMENTS**

by

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Thesis submitted in partial fulfillment
of the requirements for the degree

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As farmland in Cache Valley continues to be overtaken by development each year, local farmers are looking for ways to protect their farmland from the encroaching urbanization. In recent years, funding has become available for purchase of agricultural conservation easements (PACE) programs. Although these programs are quite new to Cache Valley, they have the potential to be an effective tool in farmland preservation. This report looks at the implementation of PACE programs in Cache Valley and is divided into five main sections: a discussion of farmland loss in Cache Valley, an explanation of purchase of agricultural conservation easements programs, descriptions of organizations that support PACE programs, examples of PACE programs successfully protecting farmland in Cache Valley, and a discussion on problems currently affecting PACE programs in Cache Valley.

I. FARMLAND LOSS IN CACHE VALLEY

Agriculture has often been referred to as the soul of Cache Valley. Cache County is the number one producer of agricultural products of all the counties in Utah. Agriculture comprises 30 percent of Cache Valley's economy with over \$100 million in annual direct sales, plus millions more in indirect sales and benefits (Edwards, 2002). However, in recent years the agricultural industry in Cache Valley has been negatively affected by the loss of farmland to urbanization. Between 1967 and 1996, more than 30 square miles of farmland in Cache Valley were lost to the development of housing and businesses. Each year, Cache Valley loses an average of 600 acres to development (Kinkhead, 2003). This loss of farmland is one of the main reasons why the number of farms in the valley today is less than half the number of farms that existed in 1950 (Utah State Historical Society, 2002).

II. PURCHASE OF AGRICULTURAL CONSERVATION EASEMENTS

As Cache Valley farmers look for options to protect their farmland, purchase of agricultural conservation easements programs are an effective way of protecting farmland in Cache Valley. To explain how PACE programs work, I have divided this part of the report into three sections: an explanation of conservation easements, a description of PACE programs, the advantages of PACE programs, and a hypothetical situation of how a PACE program could protect farmland in Cache Valley.

A. Conservation Easements

To understand purchase of agricultural conservation easements programs, it is necessary to first understand what a conservation easement is and how its value is determined. A conservation easement is defined as the development rights of a piece of land and their separation from the property. The value of the easement is the difference between the value of the land if sold for agricultural purposes and the value of the land if sold for residential or commercial development. The value of the easement is usually determined by professional appraisers (American Farmland Trust, 2002).

B. PACE Programs

Purchase of agricultural conservation easements programs consist of farmers selling the conservation easements of their land to a government agency or to a private land conservation organization. Although the farmer loses the development rights to a piece of farmland after he sells the conservation easement, he retains all other rights of ownership to the property. By selling the development rights to his land, a farmer can receive payment for the development value of his land but still continue to farm it (American Farmland Trust, 2002). This removal of development rights typically runs with the land, meaning that it is binding on subsequent

purchasers of the land and can be enforced by the agency or organization that owns the conservation easement (Coughlin and Keene, 1980). PACE programs are also frequently referred to as purchase of development rights, or PDR, programs.

C. Advantages of PACE Programs

There are several advantages to using PACE programs to protect farmland. Three of the biggest advantages are financial gain, reduction of market value, and community involvement.

1. Financial gain

The greatest advantage of PACE programs is that they give farmers a financially competitive alternative to selling land for development. The PACE programs allow farmers to receive money for a fair percentage of the equity of their land, and give them cash flow that can be used to purchase more land, improve their farming operations, pay off debt, or establish a retirement fund.

2. Reduction of market value

A second advantage of PACE programs is that they reduce the future market value of the land by removing the development potential from the farmland. This reduction in market value is a notable advantage because it helps facilitate the transfer of farmland to the children of farmers and makes the farmland more affordable to beginning farmers and others who wish to purchase the land for agricultural purposes. There are also tax advantages because property taxes may be reduced to reflect farm value rather than development market value (American Farmland Trust, 1998).

3. Community involvement

Another advantage of PACE programs is that they allow communities to participate with farmers in the costs of protecting farmland. The community becomes involved in PACE

programs because many times the programs are funded by property tax dollars. Involving the community in farmland protection could be a great advantage in Cache Valley. Many Cache Valley residents support farmland protection because they like the rural setting, open space, and clean air that farmland provides. Additionally, protecting farmland is important for many residents of Cache Valley who are not farmers because they indirectly derive their incomes from agriculture.

The willingness of Cache Valley residents to participate in preserving farmland has been shown through several studies. In 1999, the Cache County Growth Management Survey revealed that 69 percent of Cache County residents listed preservation of agricultural spaces in Cache Valley as a major priority (Israelsen, 2001). In May of 2003, the Trust for Public Land performed a survey of 300 registered voters in Cache County. Some of the findings included:

- 46% said that the single most important factor facing the local area was overdevelopment.
- 57% feel that Cache County is growing and developing too fast.
- 66% agreed that Cache County should issue \$20 million general obligation bonds to purchase agricultural conservation easements.
- 88% thought it is important to have a program to protect agricultural land from development.
- 81% approve of having a program in Cache County that uses public tax dollars to purchase agricultural conservation easements (Eichberg, 2003).

D. Hypothetical situation

The following is a hypothetical situation that shows how a PACE program could protect farmland in Cache Valley. Suppose Farmer Brown has 50 acres of prime farmland located in

Smithfield that he has been farming for 60 years. In order to protect his farmland, Farmer Brown sells the conservation easement for his land to the USDA's Farmland Protection Program.

Farmer Brown receives \$150,000 for the conservation easement, which he uses to establish a retirement fund for himself and his wife. When Farmer Brown dies, his son inherits the land and would rather sell the land rather than farm it himself. Normally, Farmer Brown's son could sell the land for the development of a subdivision for \$12,000 per acre. However, because the development rights to the property now belong to the USDA, he cannot sell the land for development. Hence he chooses to sell the land to a young farmer for \$9,000 per acre, and the farmland continues to be used for agricultural purposes.

III. ORGANIZATIONS THAT SUPPORT PACE PROGRAMS

There are several governmental and non-governmental organizations that are willing to assist Cache Valley farmers in the purchase of conservation easements. Three of these organizations are the USDA Natural Resource Conservation Service, the Quality Growth Commission, Utah Open Lands, and the Trust for Public Lands.

A. USDA Natural Resource Conservation Service

The U.S. Department of Agriculture has set aside money that is to be used in purchasing conservation easements from farmers in order to protect farmland. On June 5, 2001, the U.S. Department of Agriculture announced that it would be providing \$17.5 million to help communities in 28 states protect valuable farmland. These funds were made available through the USDA's Natural Resource Conservation Service and were used to purchase conservation easements to protect over 28,000 acres of productive farmland. Of the \$17.5 million, \$116,500 was allocated for the state of Utah. To qualify for this program, the farmland had to be privately owned, covered by a conservation plan, be large enough to sustain agricultural production, be

accessible to markets for what the land produces, and be surrounded by parcels of land that can support long-term agricultural production (Cressel, 2001).

B. Utah Quality Growth Commission

The Utah Quality Growth Commission administers the LeRay McAllister Critical Land Conservation Fund, which provides grants and loans to preserve critical agricultural land in Utah. The Commission was created in 1999 with the passing of the Utah Quality Growth Act and assisted in protecting 9,400 acres of open land in its first 18 months of operation. In order to receive a grant from the Utah Quality Growth Commission, farmers must provide matching funds greater than or equal to the amount of money received from the Conservation Fund (Utah Quality Growth Commission, 2001). The conservation fund is named after former Utah County Senator LeRay McAllister, who spent much of his career working to preserve agricultural land (Rowley, 2002).

C. Utah Open Lands

Utah Open Lands is a non-political, non-governmental organization that is dedicated to the preservation of farmland through various programs, including the purchase of agricultural conservation easements. Utah Open Lands is a land trust, which is a non-profit, tax-exempt, public charity that is allowed to own conservation easements under a specific code of the Internal Revenue Service. Utah Open Lands began in 1990, and since then it has protected over 27,000 acres in Utah. Utah Open Lands has assisted in protecting farmland in Cache Valley, including 21 acres at the American West Heritage Center in Wellsville (Utah Open Lands, 2001a).

One way that Utah Open Lands has helped farmers to protect their land is by allowing the farmers to donate their development rights to Utah Open Lands rather than have Utah Open Lands purchase the conservation easement from the farmers. The greatest advantage of donating

a conservation easement is the tax benefit. The donation of a conservation easement constitutes a charitable donation and can result in tax deductions or estate tax benefits. Sometimes these tax benefits are so great that they match the value of developing the property (Utah Open Lands, 2001b).

D. The Trust for Public Lands

The Trust for Public Lands (TPL) is a national, non-profit land conservation organization. TPL was founded in 1972, and since then it has helped to protect more than 1.45 million acres in 45 states. In Utah, TPL has helped to preserve more than 33,000 acres. In addition to preserving farmland in Utah, TPL has also preserved forest wilderness, returned culturally significant land to Native Americans, and protected public access to the 100-mile long Bonneville Shoreline Trail. TPL receives its funding through the contributions of individuals, foundations, and corporations (Bodke, 2003). TPL consistently receives recognition for their efficient use of donated funds. TPL was rated as one of the nation's most efficient conservation charities for four years in a row by Wall Street Journal's *SmartMoney* magazine. TPL was also featured in *Newsweek* magazine as one of only five charities making the best use of donated funds (Trust for Public Land, 2003).

IV. PACE PROGRAMS IN CACHE VALLEY

Although PACE programs are just starting to be used here in Cache Valley, there are already some positive examples of farmland being protected through such programs. Three examples of farmland protection success in Cache Valley are the protection of farmland at the Milky Way Dairy in Smithfield, the protection of ranch land at the Brooke Ranch in Paradise, and the protection of farmland at the Olsen Family Dairy in Young Ward.

A. Milky Way Dairy

The Milky Way Dairy in Smithfield has successfully protected 15 acres of prime farmland through the purchase of agricultural conservation easements. The Milky Way Dairy is owned and operated by brother Ralph and Jon Meikle and is located on the east bench of Cache Valley between the expanding cities of Smithfield and Hyde Park. As subdivisions from these two cities continue to approach the Milky Way Dairy, the Meikle brothers were looking for a way to protect their farmland from the encroaching urbanization. As they studied the different possibilities, they decided to team up with the Utah Department of Agriculture and Food (UDAF) and the USDA Natural Resource Conservation Service to purchase a conservation easement for 15 acres of farmland that they had been leasing for several years. The owner had been considering selling the land for new home development, which would have put greater pressure on the Meikle's dairy operation. The conservation easement was purchased for \$224,000, and the cost was equally shared by the UDAF's Critical Agricultural Land Conservation Fund and USDA's Farmland Protection Program (State of Utah Department of Agriculture and Food, 2001).

Jon Meikle is very optimistic about the application of more PACE programs in Cache Valley. Before the conservation easement purchase was signed, he stated, "I think once this happens, it will be an icebreaker for farmers in Cache Valley. People wonder if this ever happens, so when we get it signed, sealed, and delivered, then the people of Cache Valley will be able to see that it does happen." After the deal had been signed, Meikle noted the benefits of the farmland protection. "We win, the community wins, and so do the people of Utah. Protecting agriculture in the state is in everyone's interest, whether they live on the Wasatch Front or out in the country" (Daines, 2002).

B. The Brooke Ranch

The Brooke Ranch is another example of a Cache Valley farm protecting their land through the purchase of agricultural conservation easements. The White family was able to protect almost 1,600 acres of their ranch in Paradise through the purchase of agricultural conservation easements. The conservation easement for the Brooke Ranch was worth \$1.72 million. Funding for the easement purchase included \$857,500 from the federal Farm and Ranch Land Protection Program, \$250,000 from the LeRay McCallister Critical Land Conservation Fund, and the remaining \$190,000 from the George S. and Dolores Dore Eccles Foundation, the Utah Division of Wildlife Resources, the Rocky Mountain Elk Foundation, and other donors. The Whites also discounted the price by about \$430,000 (Moulton, 2003b). Although the \$1.72 million sounds like a lot of money, the Whites could have sold the land to developers for five times that amount. The White family used the funds generated from the conservation easement to pay off the farm's mortgage and set aside some money in a retirement fund (Moulton, 2003b).

Shauna Kerr, vice-chair of the Utah Quality Growth Commission, praised the efforts of the White family. "Together we have preserved this beautiful agricultural land. Together we have assured that this land continues to grow crops and livestock instead of little houses in a row. Efforts like this will assure that our children and grandchildren will know and appreciate Cache Valley as the agricultural heart of Utah.

C. Olsen Family Dairy

Evan and Ines Olsen of Young Ward successfully protected 13 acres of prime farmland through the purchase of agricultural conservation easements. The conservation easement for the Olsen Family Dairy was purchased with \$27,000 from the Utah Department of Agriculture and Food's Critical Agricultural Land Conservation Fund and \$40,500 from the USDA's Farm and

Ranch Land Protection Program. The Olsens also discounted the price of the easement by \$13,500.

Selling the easement allowed the Olsens to buy 19 more acres of land nearby that could have been sold for housing development. Protecting these two parcels of land protects a source of feed for the Olsens' dairy cows and establishes an agricultural buffer zone between the dairy farm and approaching residential housing. Evan Olsen proclaimed, "I have been watching with some concern the accelerating development of residential homes in my area. This easement helped me generate enough funds to purchase other property that I can use to feed my herd and protect my operation" (Utah Department of Agriculture and Food, 2002).

V. PROBLEMS FACING PACE PROGRAMS IN CACHE VALLEY

Those Cache Valley residents who are trying to implement PACE programs in Cache Valley are being faced with several problems. The most serious problem is the lack of local funding. A related problem is the Cache County Council's slow progress in issuing a \$20 million bond to support a PACE program in Cache Valley.

A. Lack of local funding

The most serious problem facing farmers who wish to participate in a PACE program in Cache Valley is the lack of local funding. Federal funding from the Farmland Protection Program covers up to half of the cost of purchasing an agricultural conservation easement. The farmer can also discount 25 percent of the price, but the other 25 percent must come from local sources, and it is often very difficult to raise. "They [farmers in Cache Valley] can't find the matching funds and people get discouraged," noted Jon Hardman of the Natural Resources Conservation Service, which administers the Farmland Protection Program in Cache Valley (Moulton, 2003a). According to Hardman, more than 30 Cache County farmers have expressed

interest in selling easements on their lands. There is plenty of federal money available, but a shortage of local matching funds. "We have tremendous opportunity to tap into federal farm money and we need to come up with the money to match that," said Cindi Hall, Economic Development Director for the Bear River Association of Governments. "This could help protect our most valuable farm land" (Rowley, 2002). In a personal interview with Jon Hardman, he stated that two years ago Utah received about \$1.4 million from the federal government to protect farmland. Mainly due to the lack of local funding, Utah sent back almost \$900,000 that it didn't use. States in the eastern United States have been able to take advantage of the millions of federal dollars available because they have matching local funds. The state of Utah has only received federal money for three farmland conservation projects, which are the three cases presented in the previous section of this report (Moulton, 2003b).

B. \$20 Million Bond to Protect Farmland in Cache Valley

As mentioned in the previous section, the biggest challenge currently facing PACE programs in Cache Valley is the lack of local funding. In other areas of the country, local governments have devised means to raise these local funds. Some of these funding sources include:

- Increased local sales tax in Sonoma County, California
- Increased cigarette tax in Pennsylvania
- Increased cellular phone tax in Virginia Beach, Virginia
- Development fees on new homes built in Queen Creek, Arizona
- Specific-purpose excise tax in Teton County, Wyoming (Cache County Agricultural Advisory Board, 2003)

For the last few years, the Cache County Council has looking at the possibility of issuing a \$20 million bond to fund the PACE programs here in Cache Valley. The bond would be paid for by an increase in property taxes. The Cache County Agricultural Advisory Board encouraged the Cache County Council to put the proposed general purpose bond on the November 2003 ballot. The Board cited the surveys presented earlier in this report that showed that the majority of Cache County residents would support the bond. However, the Council chose to wait at least another year before placing the bond on the ballot. The biggest concern was the fact that the 2003 election only covered local races, so only residents living within an incorporated city would be able to vote and the voting turnout would most likely be much lower than normal. County Clerk Jill Zollinger used historical data to estimate that less than 15% of voters would show up to vote. The County Council was against the idea of 15% of voters deciding a taxation issue that would affect all of the county's residents. The Cache County Agricultural Advisory Board continues to work with the Cache County Council and the Cache County Planning Commission in order to resolve any questions and problems so that the bond issue will be on the 2004 ballot for Cache County residents to vote on. However, there is still no decision on whether or not the bond issue will make it on this year's ballot.

VII. CONCLUSION

Purchase of agricultural conservation easements programs have been proven successful in protecting farmland in other parts of the country. In the last three years, PACE programs have also proven successful in Cache Valley by protecting farmland on the Milky Way Dairy, the Olsen Family Dairy, and the Brooke Ranch. The sale of development rights on the farmland benefits the farmer as well as the Cache Valley community as a whole. However, in order to continue to use PACE programs in Cache Valley, local funds need to be made available in order

to receive the federal funds available. With local farmland protection funds, local farmers will be able to maintain open space, protect Cache Valley's valuable agricultural industry, and ensure that there will be fairly-priced farmland for the next generation of local farmers

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VII. ADDENDUM

In addition to the report on the purchase of agricultural easements, I also prepared the attached informational pamphlet. In researching this subject, I found that many farmers in Cache Valley do not understand the basics of PACE programs. With the input of John Hardman, District Conservationist for the USDA Natural Resource Conservation Service, and Clark Israelsen, Cache County Extension Agent, I prepared this pamphlet with the idea of placing it in the Cache County Extension Office so that local farmers (and others interested in learning about PACE programs) can learn the essential facts about PACE programs. I also wanted to include sources where they can get more information in order to decide if participating in a PACE program is right for their operation.

Purchase of Agricultural Conservation Easements in Cache Valley: An introduction



What is a conservation easement?

A conservation easement is defined as the development rights of a piece of land and their separation from the property.

What is the value of a conservation easement?

The value of the easement is the difference between the value of the land if sold for agricultural purposes and the value of the land if sold for residential or commercial development.

How does a purchase of agricultural conservation easements program work?

Purchase of agricultural conservation easements (also commonly called purchase of development rights) programs consist of farmers selling the conservation easements of their land to a government agency or to a private land conservation organization.

If I sell the conservation easement for my land, what property rights do I maintain?

Although you lose the development rights to your piece of farmland after you sell the conservation easement, you retain all other rights of ownership to the property, including rights of privacy, the right to sell the land, the right to lease the land, etc.

What are the benefits of selling a conservation easement?

The greatest advantage of selling a conservation easement is that it allows you to receive money for a fair percentage of the equity of your land. It gives you immediate cash flow that can be used to purchase more land, improve your operation, pay off debt, or establish a retirement fund.

A second advantage of selling a conservation easement is that it reduces the future market value of the land by removing the development potential from the farmland. This reduction in market value helps facilitate the transfer of farmland to your children.

There are also tax advantages because property taxes may be reduced to reflect farm value rather than development market value.

In addition to the direct benefits to you, there are many benefits to the Cache Valley community. Some of the benefits include maintaining open space, protecting Cache Valley's valuable agricultural industry, and ensuring that there will be fairly-priced farmland for the next generation of local farmers.

How does the purchase of agricultural conservation easements protect Cache Valley farmland?

The following is a hypothetical situation that shows how the purchase of agricultural conservation easements could protect farmland in Cache Valley. Suppose Farmer Brown has 50 acres of prime farmland in Cache Valley that he has been farming for 40 years. In order to protect his farmland, Farmer Brown sells the conservation easement for his land to the USDA's Farmland Protection Program. Farmer Brown receives \$150,000 for the conservation easement, which he uses to establish a retirement fund for himself and his wife. When Farmer Brown dies, his son inherits the land and would rather sell the land rather than farm it himself. Normally, Farmer Brown's son could sell the land for the development of a subdivision for \$12,000 per acre. However, because the development rights to the property now belong to the USDA, he cannot sell the land for development. Hence he chooses to sell the land to a young farmer for \$9,000 per acre, and the farmland continues to be used for agricultural purposes.

What organizations help fund the purchase of agricultural conservation easements?

The USDA Natural Resource Conservation Service administers the Farm and Ranch Land Protection Program (<http://www.nrcs.usda.gov/programs/frpp>)

The Utah Quality Growth Commission administers the LeRay McAllister Critical Land Conservation Fund (<http://www.governor.state.ut.us/planning/FundingInfo.htm>)

The Utah Department of Agriculture and Food administers the Critical Agricultural Land Conservation Fund (www.ag.state.ut.us/preservation.html)

Utah Open Lands in a non-profit land trust (www.utahopenlands.org)

The Trust for Public Land is a national, non-profit land conservation organization (www.tpl.org)

American Farmland Trust is another national, non-profit land conservation organization (www.farmland.org/farmlegacy/easements.htm)

Have farmers in Cache Valley had success by selling their agricultural conservation easements?

Yes. In the past few years, several Cache Valley farmers have successfully protected their farmland by selling their agricultural conservation easements. Some examples include:

- Protecting 15 acres of a dairy farm in Smithfield.
- Protecting 13 acres of a dairy farm in Young Ward.
- Protecting nearly 1,600 acres of a ranch in Paradise.

If I choose to participate, where do I begin?

The most important part of the process is to get all the information you need before you begin. The sale of development rights may not fit everyone's operation, and there are many requirements that must be met. The process usually takes more than a year, so it's important to make sure you know what you're getting into before investing the time and effort. To learn more about the purchase of agriculture easements, visit the websites listed on the previous page. Also, the USDA Service Center in Logan has a informational packet available entitled "Landowner Packet: Information Concerning the Farm and Ranch Protection Program."