OFFICE OF THE STATE COMPTROLLER
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Bet on the Farm: Farmland Protection as a Strategy for Economic Growth and Renewal

October 2010

Executive Summary

New York State's Farmland Protection Program was created in 1992 to preserve high quality working farmland and to reduce pressures on farm families to sell their lands and leave the farming industry. Counties and towns receive financial support from the program to develop farmland protection plans and to purchase development rights on farmland.

Purchase of development rights legally restricts future uses of the land, ensuring that it will be available for farming in the future, while providing the farmer with resources to reinvest in the farm. This program has been funded in the State budget with appropriations from the Environmental Protection Fund (EPF) and with bond proceeds from the Clean Water/Clean Air Bond Act of 1996 (Bond Act).

This report examines the performance of the New York State Farmland Protection Program and its potential to ensure that farming continues to be a valuable contributor to New York's economy. Findings include:

- The Farmland Protection Program, in combination with other State programs to promote the economic viability of farms, can help counteract pressures that may drive land out of agricultural production. Funds from the purchase of easements allow farmers to pay off debt, modernize and diversify production and make other investments that can increase farm revenues and help make farms more viable.
- Because land that is suitable for residential or commercial development tends to command higher prices than farmland, productive agricultural land has become less available. Easements that transfer development rights from the farmer help ensure that the land will stay in agricultural production when a farm is sold.
- Volatility in farm commodities and farm production inputs results in boom-and-bust cycles for farmers. New York State's Farmland Protection Program can provide capital to help farmers make investments to buffer themselves by entering new markets, such as the market for organic foods, or through marketing directly to consumers through farmers' markets and regional markets.
- New York State's farms generate more than $4.4 billion for the State's economy each year. In 2007, the income generated directly by farms, combined with income generated by agricultural support industries and by industries that process agricultural products, totaled $31.2 billion.[1]

[1] Bills, Nelson and Gregory Poe. "Agriculture and the Environment: Trends in New York Land Use and Highlights of the 2008 Farm Bill." *New York Economic Handbook 2009*. Department of Applied Economics and Management, College of Agriculture and Life Sciences. Ithaca: Cornell University, December 2008.

- Market volatility, when combined with the effects of an economic downturn, can be disastrous for farmers. In times of economic hardship, infusions of cash from the sale of agricultural conservation easements can offset the need to add to farmers debt burdens for planned farm investments, or help stressed farmers weather the combination of recessionary pressures and market-related loss of income.

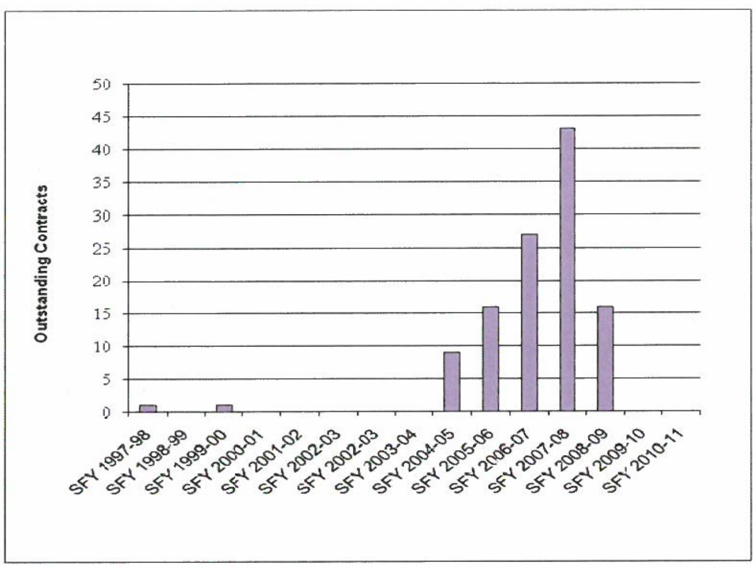
The economic benefits from the agriculture industry warrant action by New York State to prevent the unnecessary loss of farms and productive farmland. While substantial funding has been appropriated for the Farmland Protection Program, expenditure delays have limited the program's effectiveness by causing a significant backlog of projects.

The Farmland Protection Program

The Farmland Protection Program is administered by the Department of Agriculture and Markets (Ag and Markets), which awards funds competitively through a request for proposals process. Planning grants support 50 percent of municipal costs for preparing a farmland protection plan (up to $50,000), and 75 percent of the costs of purchasing an agricultural conservation easement.[2] Under the program, municipalities must apply for funding to purchase conservation easements. Once the easement is purchased, it may be held by the municipality or by an organization that has the authority to acquire interests in land, such as a land trust.

This program has assisted 53 counties and 64 towns in New York in the creation of farmland protection plans. Easements have been purchased on 170 farms covering 32,867 acres. In addition, there are 113 approved contracts pending between Ag and Markets and municipalities for purchase of agricultural conservation easements. A significant portion of these contracts, 47.8 percent, are three or more years old.

Outstanding Contracts by State Fiscal Year.



[2] An agricultural conservation easement transfers the right to use the land for purposes that are inconsistent with agricultural uses from the landowner/farmer to a municipality or a non-profit land trust. State law requires that these rights be transferred in perpetuity and bind future land owners should the land be sold.

Program Implementation

In awarding funds for purchase of agricultural conservation easements, Ag and Markets gives priority to projects that:

- Preserve viable, high quality agricultural land that is likely to remain in production upon receiving the benefits of the program;
- Address agricultural land in areas facing significant development pressure; and
- Serve as a buffer for public lands or waters containing important habitats and ecosystems.

Once an award decision has been made, Ag and Markets enters into a contract with the municipality. However, additional work usually remains to be done before the municipality receives the final payment, including:

- Development of a purchase agreement;
- Development of a project budget showing actual costs of the project, as well as the local matching contribution and the State funding requested;
- Acquisition of a title insurance commitment to insure the conservation interest in an amount equal to the State financial contribution;
- Appraisal of the property by a New York State-certified general real estate appraiser;
- Survey of the proposed conservation easement area for the farm;
- Development of an approved conservation easement or deed of development rights;
- Description of the condition of the property at the time the conservation easement is conveyed;
- Development of a monitoring plan; and
- Development of an agreement between the municipality and a land trust, if applicable.

Municipalities are eligible to receive a portion of their costs to meet the requirements of the program in the form of an advance payment or a partial payment of costs. Farmers are not eligible for advanced payments to cover any costs they incur in this process. A 2008 audit conducted of Ag and Markets' implementation of the Farmland Protection Program by the Office of the State Comptroller found that the competitive procedure to award project funding and then enter into contracts with successful awardees was transparent and timely.[3] The audit did not consider the timeliness of the process to complete the steps required to reach a closing on the agricultural conservation easement.

Program Financing

To date, $187.5 million in EPF funding has been appropriated for the Farmland Protection Program since 1994, and an additional $18.1 million in funding has been provided from the 1996 Bond Act, for a total of $205.6 million. A total of $95.5 million has been spent on farmland protection through the life of the program, including $79.8 million in EPF funding and $15.7 million in Bond Act funding. A significant backlog of appropriated, but unspent, Farmland Protection Program funding has developed over the history of the program.

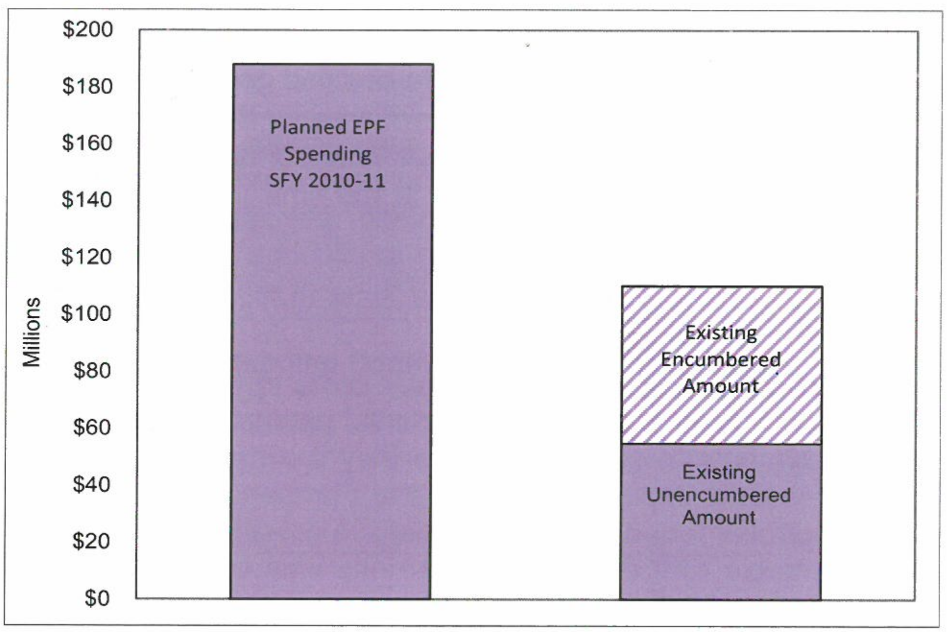
[3] See Office of the State Comptroller audit, *Department of Agriculture and Markets: Environmental Protection Fund*, (Report 2008-S-150).

A total of $110.1 million in funds appropriated for this program remains undisbursed. This includes $53.0 million in EPF funding and $2.4 million in Bond Act funds that have been encumbered but not yet disbursed for 113 farmland protection projects with approved contracts. In addition, a total of $54.7 million in EPF funding available for new farmland protection projects remains unencumbered. To date, none of the funding appropriated in State Fiscal Year (SFY) 2009-10 or SFY 2010-11 has been encumbered, and more than 50 percent of funds appropriated in SFY 2008-09 remain unencumbered.

The SFY 2010-11 Enacted Budget Financial Plan projects that $188 million in dedicated funds will be disbursed for all EPF programs and purposes in SFY 2010-11. Based on this projected level of funding, and given the significant demand across several EPF programs, addressing the Farmland Protection Program backlog poses a fiscal challenge.

The 2009 New York State Open Space Plan reports that $547 million in farmland protection project applications were turned away between 1996 and 2008 due to insufficient program funding, indicating the strong interest and support for this program in the farming community.

Planned EPF Spending Compared to Unspent Farmland Protection Funds



Other Farm Support Programs

New York State's Agriculture Districts Law (Article 25-AA of the New York State Agriculture and Markets Law) provides for reduced property tax assessment on lands used for agriculture. The assessment is restricted to properties where at least seven acres of land has been in agricultural production for the prior two years, generating at least $10,000 in income. The value of the assessment on a particular farm is determined from values assigned to categories of soil by Ag and Markets and the New York State Office of Real Property Tax Services.

The New York State Healthy Food/Healthy Communities Initiative was created in 2009 to create opportunities for New York State's farmers to market products directly to consumers and to sell products in wholesale markets in the State. This program establishes a food market revolving loan fund to expand consumer access to fresh food markets in rural and urban communities, and a matching grants program to support the establishment of farmers' markets throughout the State.[4]

A related federal program, the Farmer's Market Nutrition Program, provides federal income subsidies to low-income and nutritionally at-risk families to increase consumption of locally grown fresh fruits and vegetables. The goal of this program is to increase farmers' markets sales as well as improve nutrition. Programs that increase direct marketing opportunities benefit farmers by providing more control over distribution and marketing. These programs can help buffer farmers from price fluctuations in national and international commodity markets for agricultural products.

Agriculture's Contribution to State and Regional Economies

The agriculture industry is important to New York State's economy and operates in almost every region of the State. While most New York State farms are small family businesses, farming is a multibillion-dollar industry that supports thousands of jobs in addition to those on farms. In 2007, the income generated directly by farms, combined with income generated by agricultural support industries and by industries that process agricultural products, totaled $31.2 billion.[5]

Farms make important contributions to regional economies, since farmers purchase goods and services from local and regional businesses.[6] Programs that encourage regional marketing of locally produced farm products can amplify this benefit by keeping dollars spent on food circulating in the local economy—improving community economic performance.[7] In addition to the direct revenue produced by farm production and the agricultural service and food manufacturing industries, these businesses generate further production valued at close to $1 for every $1 produced directly.[8]

Direct employment on New York farms has declined, as has employment in food-based manufacturing. Employment in agricultural services industries (a broad class of service industries that includes veterinary services, farm management services and lawn and garden services) has grown. Employment in these industries helps to create additional employment opportunities that can be significant. For every job created in the food manufacturing industry, three additional jobs are created in the economy. For every job on New York's dairy farms, an additional 1.24 jobs are created. The multiplier effect of jobs in New York's agricultural services industries is not as significant, with approximately 0.25 additional jobs being created for every job in these industries.[9]

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[4] Schmit, T.M. and M.I. Gomez. "Developing Viable Farmers Markets in Rural Communities: An Investigation of Vendor Performance Using Subjective and Objective Valuations." *Working Paper.* Department of Applied Economics and Management. WP 2010-06 Ithaca. Cornell University. 2010.

[5] Bills and Poe, "Agriculture and the Environment: Trends in New York Land Use and Highlights of the 2008 Farm Bill."

[6] Ferguson, Kirsten and Jeremiah Cosgrove. *From the Field: What Farmers Have to Say About Vermont's Farmland Conservation Program.* Northeast Field Office, Saratoga Springs, New York: American Farmland Trust 2000

[7] Schmit and Gomez. "Developing Viable Farmers Markets in Rural Communities: An Investigation of Vendor Performance Using Subjective and Objective Valuations."

[8] Bills, Nelson. *Agriculture Based Economic Development: Trends and Prospects for New York.* December 2001. Department of Applied Economics and Management. Ithaca, Cornell University 2001. And Schmit, Todd M. and Nelson L. Bills. "Agribusiness Contributions and Inter-Industry Linkages in the New York State Economy." Yearbooks of Agricultural University of Poznan, Economy Series Vol. 6: 119-142. Poznan, Poland 2007

[9] Bills, Nelson. *Agriculture Based Economic Development: Trends and Prospects for New York.*

Economic and Other Benefits of Farmland

Loss of farmland and farm businesses can have a negative impact on regional economies. Between 1997 and 2007, the amount of farmland in New York State declined by 613,500 acres and the number of farms declined by 5 percent.[10] The loss of farms in a region can produce negative economic impacts that go beyond the loss of an individual farm family's income. For example, farms return a significant proportion of the revenues they generate to the local economy, resulting in a negative economic multiplier effect when a farm is lost.[11] In addition, the loss of farms in a region can undercut the ability of businesses that support farmers to survive.[12] Loss of these businesses can further undermine remaining farms.

Finally, well-managed farmland may provide ecosystem services, such as storm water retention, filtration of surface water, and replenishment of ground water. Some of these natural benefits must be replaced with engineered systems if the land is converted to land uses that allow storm water to run off quickly. Construction and maintenance of these systems would impose an additional cost burden on State and municipal taxpayers.

Preservation of farmland may help municipal budgets in other, less apparent, ways. Studies have shown that land in agricultural use demands fewer municipal services than lands in residential or other urbanized uses. Consequently, land in agricultural use tends to generate greater municipal tax revenue than the value of the services required by these lands. In comparison, lands in residential use often consume services of greater value than the property tax revenues generated by these lands.[13] In this way, loss of farmland can increase the demand for municipal services without producing revenues sufficient to cover the cost of providing those services.

Pressures Affecting New York's Farms

Small farms are predominant in New York State. Profit margins are tight—less than 20 percent of farms generate more than $100,000 in farm income.[14] Many farmers supplement their incomes by leasing their land for mining or wind turbines, or relieve financial pressure by selling farmland for residential development. A survey of small New York State farmers identified the following issues as the most significant barriers to success:

- Low product prices
- Product price variability
- Lack of equity and high debt load
- Urban land price pressure.[15]

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[10] U.S. Census Bureau.
[11] Farmland Preservation in Dutchess County, NY, Dutchess Land Conservancy.
[12] An economic survey of farms and farm-related businesses in New York's Hudson Valley showed that the number of farm-related businesses declined as acreage in farmland declined. Agricultural and Community Development Services, LLC. *"At a Crossroads: Agricultural Economic Development in the Hudson Valley."* American Farmland Trust, 2004.
[13] Auger, Philip A. "Does Open Space Pay?" Natural Resources Network. University of New Hampshire Cooperative Extension. 1996. http://extension.unh.edu/resources.representation/Resource000400_Rep422.pdf; American Farmland Trust. *Does Farmland Protection Pay? The Cost of Community Services in Three Massachusetts Towns.* Massachusetts Department of Food and Agriculture. June 1992.
[14] *The Role of Agriculture in the New York State Economy*, Report 21-2010, New York State Office of the State Comptroller.
[15] Cuykendall, Charles, Eddy LaDue and R. David Smith. *What Successful Small Farmers Say: The Results of a Survey of Successful Small Farm Operators.* Cornell Program on Agricultural and Small Business Finance. Ithaca. Cornell University. 2002.

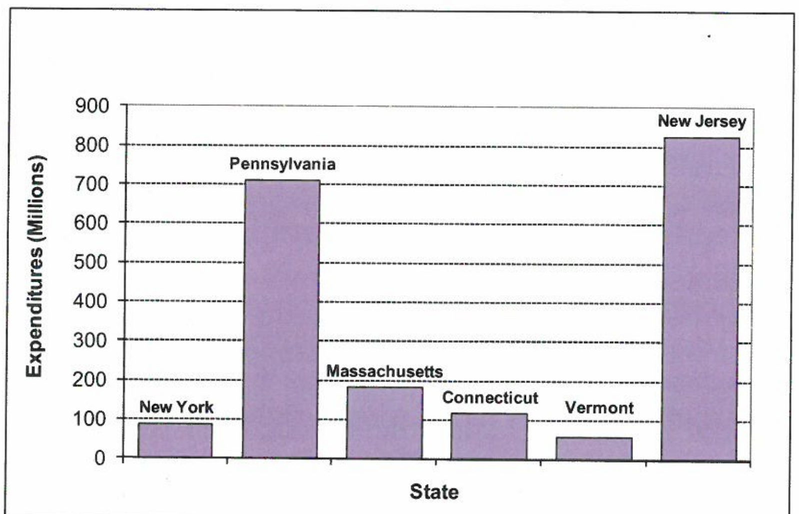
Low product prices were the most commonly identified barrier to success, with 21 percent of respondents selecting this response. The second and third most commonly identified barriers to success, respectively, were weather and variation in product prices. Lack of equity was identified by 7 percent of respondents as a barrier to success and 5 percent identified urban land price pressure as a barrier. In addition, New York farmers have higher costs of capital than farmers in neighboring states. Adding to New York farmers' competitive disadvantage are high energy and labor costs, as well as higher property and income taxes.[16]

Trends in Farmland Protection in Neighboring States

All five states that share borders with New York have farmland protection programs.[17] Programs in Connecticut and Massachusetts were created in 1977 and 1978, respectively, and are the second and third oldest farmland protection programs in the nation. New Jersey's program was created in 1983, followed by Vermont in 1987 and Pennsylvania in 1988. The Farmland Protection Program in New York State was created by Chapter 797 of the Laws of 1992. In its initial form, the program provided grants to support the development of county plans to keep prime farmland in agricultural production. In 1996, the program was amended to include support for purchase of development rights on prime farmland, and to provide grant support for development of town farmland protection plans.

New York and its neighboring states have all lost farmland over the last ten years, but only New York and Vermont have experienced a net loss of the number of farms. New York has lost a larger percentage of farms than Vermont. The states with the largest historic expenditures on farmland protection--New Jersey, Pennsylvania, Massachusetts and Connecticut--have experienced net growth in numbers of farms.

Historic Expenditures on Farmland Protection by State



Source: American Farmland Trust

The chart above shows cumulative expenditures on farmland protection by New York and its neighboring states over the life of their programs thus far. The programs have all been in existence for varying periods of time, but all were in existence during the period of time covered by the next chart, which compares their success in maintaining farms.

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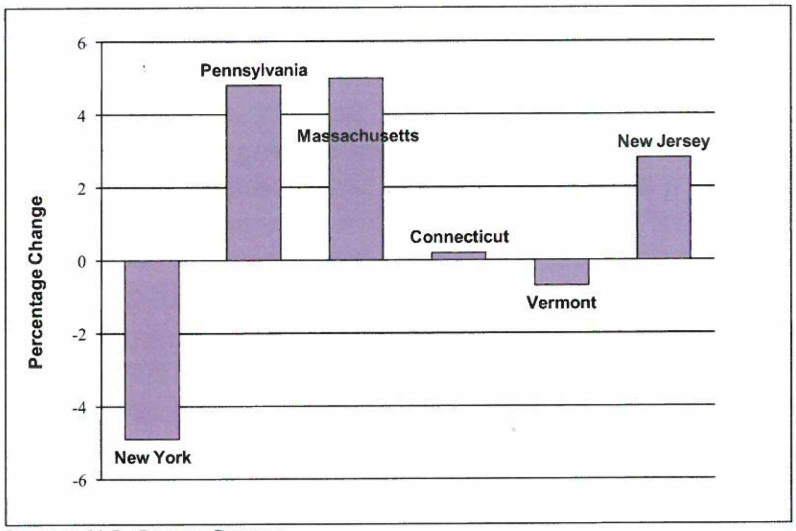
[16] Schmit, Todd M. and Nelson L. Bills. "Agribusiness Contributions and Inter-Industry Linkages in the New York State Economy."
[17] *Fact Sheet: Status of State PACE Programs.* Farmland Information Center. American Farmland Trust. June 2010.

Change in Number of Farms by State, 1997 - 2007



Source: U.S. Census Bureau

The chart above shows the percentage change in numbers of farms in New York and its neighboring states in the years from 1997-2007.

Conclusion

New York State's programs to promote agriculture have the potential to mitigate the challenges farmers face in maintaining the economic viability of their farms. Agricultural support programs that assist farmers in marketing directly to consumers can help farmers control the effects of price volatility in the national and international commodity markets. Regional farmers' markets also can reduce the competition from farmers in states with lower fixed costs, such as energy, or taxes. The State Agriculture District Law reduces the property tax burden of farmland.

The economic benefits from the agriculture industry warrant action by New York State to prevent the unnecessary loss of farms and productive farmland. The Division of the Budget and Ag and Markets should work together to address the backlog in this program to maximize the benefit of dollars already appropriated by the State to preserve farmland in New York. The Farmland Protection Program has the potential to assist farms that are stressed by volatile product prices and other adverse economic conditions, and face pressure to convert their land to non-farm uses. While substantial funding has been appropriated for the Farmland Protection Program, delays in spending the funds appropriated for the program have limited the program's effectiveness by causing a significant backlog of projects.

In addition, a June 2010 Office of the State Comptroller report, *Effective Management of the Environmental Protection Fund,* recommends that the New York State Division of Budget produce an annual report on EPF implementation to identify progress on expenditure of funds appropriated to each EPF program and recommendations for addressing any delays that occur. The finding that funds appropriated to programs like the Farmland Protection Program (that provide proven, important benefits to New York State's rural economy) are not being disbursed in a timely way, demands that New York State government focus attention on identifying and eliminating the sources of delay.