



POLICY BRIEF

Agricultural Development and Farm Preservation Trust Funds: How North Carolina Counties Can Use Deferred Present-Use Value (PUV) Taxes to Support Their Agricultural Economy

Introduction and Background

Communities across North Carolina have an increasing appetite for locally grown and produced foods. This demand has led to farmers and food producers across the state seeing increased sales at local grocery stores and restaurants, and through direct markets like on farm sales, farmers markets, roadside stands, and Community Supported Agriculture subscriptions. According to the USDA's recently released survey on local food marketing practices, NC ranks 10th in the U.S. in the number of farms selling foods locally, and ranks 11th in total direct farm sales. In 2015, 5,249 North Carolina farms reported direct farm sales of food and value-added products, and brought in a combined total of more than \$187 million.

While farmers are increasing connections with diversified markets, there are still many challenges facing our local and regional food systems, including: the rising age of farmers, fluctuating seed and commodity prices, and limited access to capital, land and training for beginning farmers. Many statewide and local organizations are working to improve their regional food systems through new and innovative policy and market-based solutions. At the local level, there are currently efforts in thirty-two counties to form food councils (also known as food policy councils), who are working to increase cross-sector collaboration on these food system challenges like access to farmland, re-establishing local and regional supply chains, and community health.

Traditional financing for food and farming entrepreneurs, conservation, and community food system projects is limited, and many federal grant programs require matching funds. Funds for projects that improve local and regional food systems and infrastructure, funds to buy conservation easements, and financing to support agricultural and food businesses are all badly needed at the local level. Access to a sustainable, locally controlled funding source that could be used for these types of opportunities would directly help to grow NC's farm and food economy.

Policy Solution - Agricultural Development and Farm Preservation Trust Funds

Generally, all property in North Carolina is valued at its market value, which is the estimated price at which property would change hands between a willing buyer and a willing seller. Present-use value (PUV) is the value of land in its current use as agricultural land, horticultural land, or forestland, based solely on its ability to produce income and assuming an average level of management. Property that qualifies for present-use value classification is assessed at its present-use value rather than its market value. Present-use value is usually much less than market value and qualifying tracts are assessed at this lower value. The tax office also establishes a market value for the land, and the difference between the market value and the present-use value is maintained in the tax assessment records as deferred taxes. When land becomes disqualified from the present-use value program (for example when it is sold out of agricultural use into development), the deferred taxes for the current year and the three previous years with accrued interest will usually become due and payable to the county.

Typically, these deferred taxes go directly into the general operating fund of a county's budget. But a new idea has emerged for how that tax income can be used by the county. This new idea proposes that the collection of

these deferred taxes and interest should go specifically to support the remaining farmers and farmland in the county. One way this can be done is by taking those deferred tax dollars to directly fund efforts that improve the local food system through the establishment of an Agricultural Development and Farm Preservation Trust Fund. This fund receives any deferred taxes collected from land as it becomes disqualified from the PUV program. The fund is set aside specifically for certain agricultural related purposes like the purchase of conservation easements, capital investment for food system related businesses, and funding for other food and ag-related projects.

The creation of an annual spend-down mechanism for the fund would give the county a spending tool for these funds. This can be done through an already existing advisory group, like a Farmland Preservation Board or Agricultural Advisory Board. This group could vet applications and designate spending from the fund based upon an agreed-upon set of standards. The advisory group could set a timeline on when applications are due and when they review requests based on the budget timeline of their county. The group could hear requests in February, make a decision in March, presentation to their Board of Commissioners in April, and then incorporate the spending into their proposed budget in May and into the final budget in June. This way, their Board of Commissioners would approve how the money is being spent every year through a standard review process.

The Cabarrus County Experience

In 2009, the County Manager in Cabarrus County, NC, John Day, proposed the establishment of a trust fund to support the local food economy and the purchase of conservation easements using the deferred tax dollars that the county collects from properties exiting their PUV program. The Board of Commissioners unanimously passed a resolution to establish the Agricultural Development and Farm Preservation Trust Fund, and as of January, 2017 the fund had raised \$1,542,931 to support food and farming in their community.

Some examples of how the funds were used include:

- \$279,727 to support the Lomax Incubator Farm
- \$151,178 for the construction of the Cruse Meat Processing facility
- \$286,000 to leverage additional government funding to put over 240 acres into conservation easements
- To hire staff to assist their food policy council and to manage the incubator farm
- To create a locally grown brand, Cabarrus Grown, for agricultural producers to promote the Cabarrus County name and for restaurants to market their commitment to buying products from local farmers

One of the challenges that Cabarrus still faces after passing their resolution was that they did not include a spend down mechanism like an annual review process. The money from the fund has to be requested from the Board of Commissioners on an ad-hoc basis. Their advice for other counties is to establish a system that allows for spending to be incorporated into the county's annual budget process.

Resources

- Advancing Local Food Policy in Cabarrus County, North Carolina: Successes and Challenges in a Changing Political Climate - Growing Food Connections
<http://growingfoodconnections.org/comminnovat/advancing-local-food-policy-successes-and-challenges-in-a-changing-political-climate/>
- Local Foods as Economic Development - Cabarrus County - Sybil Tate (Center for Environmental Farming Systems) <http://ced.sog.unc.edu/local-foods-as-economic-development-cabarrus-county/>
- North Carolina Present Use Value Program Guide -
http://www.dor.state.nc.us/publications/puv_guide.pdf