

Testimony of Eric Hammerling, Executive Director, Connecticut Forest & Park Association

Legislation before the Environment Committee on March 7, 2011	Support/ Oppose
H.B. 6263: AN ACT CONCERNING THE TRANSITION FROM THE 10 MILL PROGRAM.	Support
H.B. 6262: AN ACT CONCERNING THE COMMUNITY INVESTMENT ACCOUNT	Support
H.B. 5203: AN ACT AUTHORIZING AN AGRICULTURAL CONSERVATION EASEMENT ON THE LANDS OF THE SOUTHBURY TRAINING SCHOOL	Support

Co-Chairs Meyer, Roy, and Members of the Environment Committee:

My name is Eric Hammerling and I am the Executive Director of the Connecticut Forest & Park Association, the first conservation organization established in Connecticut in 1895. As you know, CFPA has offered testimony before the Legislature on issues such as sustainable forestry, state parks and forests, trail recreation, natural resource protection, and land conservation every year since 1897.

As a partner of the Working Lands Alliance, we support H.B. 6262 and H.B. 5203, but I will focus my three minutes today in strong support of protecting 14,000 acres of forest that are currently in the 10 Mill program. H.B. 6263: An Act Concerning the Transition from the 10 Mill Program, would ensure that the landowners who made a visionary 100-year commitment to forest conservation receive our appreciation rather than being stuck with a large tax bill.

“10 Mill” is the name of the first forest conservation law enacted in Connecticut (1913). Entering the 10 Mill program provided large forest landowners (over 25 acres) with a low property tax rate of 10 mills based on the original value of the land. Landowners had to be willing to abide by the following conditions: 1) make a 100-year commitment to preserve their land as forest; 2) subject themselves to severe penalties if they changed the use of their properties out of forestry before the conclusion of their 100 years; and 3) they would pay yield taxes to the town if they ever conducted a commercial harvest on the property. It was an amazing program that was many decades ahead of its time.

However, many 10 Mill landowners did not realize that on the 50 year anniversary of being in the program, both their land and standing timber would be re-assessed at their current "developable" values. In most instances the value of the land and timber has increased dramatically over time. Re-assessing the land and timber at their current, developable values (despite the fact that actually developing the land would incur a large penalty) will likely result in property taxes for 10 Mill landowners increasing by an estimated 20 times or more.

A conservative estimate of the property tax increase provided by the DEP Forestry division had property taxes increasing from \$1/acre to \$24.50/acre at the 50 year anniversary. Meanwhile, in this same example, neighboring forest landowners in the Public Act 490 program (which has become the preferred choice for forest, agricultural, and open space landowners since its inception in 1963), are paying the equivalent of only \$2.73/acre.¹

H.B. 6263 would provide a balanced compromise to address this situation by:

1. capping the property taxes of 10 Mill landowners at the P.A. 490 rate when they reach their 50-year anniversary in the program;
2. providing 10 Mill landowners who are willing to place a conservation easement on their properties with the flexibility to keep their lands in 10-Mill or transition into P.A. 490 without a financial penalty; and
3. maintaining the penalties associated with changing use out of forestry to both protect the forest values of the 10-Mill lands and ensure that towns would benefit financially if the landowners decided to develop.

Simply stated, passing H.B. 6263 is critical to the landowners of 14,000 acres of forest who made both an early, long-term commitment to protecting their forests! It is urgent to pass this bill this year because all of the 10 Mill properties will hit their 50 year anniversaries between 2011 and 2022. Over 1,250 acres will be impacted in 2011 alone if this bill does not succeed.

Thank you for raising this important bill and for your ongoing support of forest, land, trail, and natural resource conservation in Connecticut!

¹ See attached example entitled "Hypothetical Examples Pertaining to Revaluation of 10-Mill Classification..."

Hypothetical Examples Pertaining to Revaluation of “10-Mill” Classification of Forest Land (Sec. 12-96 to Sec. 12-103)

Assuming the land is staying in the 10-mill program, after the first 50 year revaluation the new assessment is subject to an annual tax on the “true and actual value” of both the land and timber separately at the local rate, but not more than 10 mills, for another period of fifty years. (See “Statutes Pertaining to the “10-mill” Classification of Forest Land” below)

Assume in 2010, we are using the “true and actual value” or “market value” of \$3000 per acre for the land (and not OPM’s recommended “current use value” for Forest land of \$130 per acre). Also assume the value of the timber is \$500 per acre (6 thousand board feet (mbf) per acre @ \$166 per mbf over half of the acreage = roughly \$500 per acre) this would give us a new true and actual value of **\$3,500 per acre** for the land and the timber combined.

(Note, depending on the actual value of the land and timber that is present, this number might be significantly different.)

The examples below are for comparison only using OPM’s Recommended Land Use Values effective October 1st 2010, which are updated every 5 years. Also note that forest land and timber values have been combined for simplicity.

Under the 10-mill law

First 50 years, true value of land and timber originally assessed separately at \$100 per acre* total x 10-mills, annual tax is **\$1/acre**.

(For 100 acres total tax per year is **\$100**)

Second 50 years, true and actual value of land and timber revalued separately at \$3500 per acre** total (see above). Using a 70% assessment ratio*** at 10-mills the annual tax would be (70% x \$3,500 x 10-mills) **\$24.50/acre**.

(For 100 acres total tax per year is **\$2,450**)

*For 50 years ago, \$100 per acre true value for land and timber combined is conservatively on the high side.

**Note, depending on the actual value of the land and timber that is present, this number might be significantly different.

*** See Section 12-62a.(b) on page 9 of this document

Under P.A.- 490 (in 2010 using OPM’s recommended forest land use value of \$130/acre, 70% assessment ratio and a mill rate of 30)

Forest Land use value at \$130 per acre x 70% assessment ratio x 30-mills or **\$2.73/acre.**

(For 100 acres total tax per year is **\$273**)

Taxed at a Fair Market Value

Land fair market value at \$3000 per acre x 70% assessment ratio x 30-mills or **\$63/acre.**

(For 100 acres at 70% assessment total tax per year is **\$6300**)

Annual Property Tax per acre for Forest Land using the examples above for 1 acre and 100 acres

1-Acre

	Fixed First 50 Years/Year	Fixed second Fifty Years/Year	Annual/Year @ 2010 \$
10- Mill Law	\$1/acre	\$24.50/acre	n/a
PA-490	n/a	n/a	\$2.73/acre
Fair Market Value	n/a	n/a	\$63/acre

100-Acres

	Fixed First 50 Years/Year	Fixed second Fifty Years/Year	Annual/Year @ 2010 \$
10- Mill Law	\$100	\$2,450	n/a
PA-490	n/a	n/a	\$273
Fair Market Value	n/a	n/a	\$6300

**Hypothetical Example pertaining to the Tax to be paid Upon
Cancellation of Classification of Forest Land under “Ten Mill”
(Sec. 12-99)**

In 1965 a landowner owns 100 acres of forest land and has it Classified as Forest Land under the Ten Mill Law.

The true and actual value of land and timber were assessed separately by the town assessor in 1965 and the combined total value was **\$100 per acre**.

At \$100 per acre x 100 acres the true and actual value of the land and timber combined at the time of assessment was **\$10,000**. For the first 50 years the annual tax is \$1/acre or \$100 for the entire 100 acres.

Assume in 2015, (50 year revaluation) we are using the “**true and actual value**” or “**market value**” of **\$3000 per acre** for the land (and not OPM’s recommended “current use value” for Forest land). Also assume that we use \$500 per acre for the value of the timber. This would give us a new true and actual value of **\$3,500 per acre** for the land and the timber combined.

At \$3,500 per acre x 100 acres the true and actual value of the land and timber combined at the time of assessment in 2015 will be **\$350,000**.

**Calculation of the tax to be paid upon cancellation of Classification
of Forest Land under the “Ten Mill” Law
(Assume 50 years under “Ten Mill”)**

Sec. 12-99. Whenever a classification has been cancelled, the assessors shall deduct the valuation of both the land and the timber thereon as established at the time of classification from the then value of such land and timber as assessed for future taxation and, on the excess value thus determined, a tax shall be collected at the rate of five mills per annum for the entire number of years that such land has been under classification.

70% assessment ratio/rate is applied:

$\$350,000 \times 70\% = \$245,000 - \$10,000 \times 5 \text{ Mills} \times 50 \text{ years} = \$61,250$
recapture tax upon cancelation

(\$612.50 recapture tax per acre)

Hypothetical Example pertaining to the Graduated Yield Tax to be paid upon the sale of Timber or Wood Products from Forest Land Classified under "Ten Mill" (Sec. 12-97 and Sec. 12-98)

In 1965 a landowner owns 100 acres of forest land with more than ten years growth of and has it Classified as Forest Land under the Ten Mill Law. Before trees are harvested (except as specified in Sec. 12-100) and sold or otherwise disposed of, the Assessor and State Forester must be notified of the quantity and stumpage value of all trees to be cut. If agreed upon, a yield tax as provided in sections 12-97 and 12-98 shall be paid by the owner of the land at the following rates:

Under Sec. 12-97		Under Sec. 12-98	
Years after Classification	Yield Tax	Any time after Classification	Yield Tax
1-10	2%		10%
11-20	3%		
21-30	4%		
31-40	5%		
41-50	6%		
Over 50 years	7%		

Example: A commercial timber sale is proposed to take place 31 years after classification. Before any trees are removed from the property, the land owner files a sworn statement with the Assessor and State Forester of the quantity and stumpage value of all material to be removed. If the Assessor and State Forester agree with the stumpage value of \$10,000, then a yield tax would be collected as follows:

31 Years after Classification

Under Sec. 12-97

5% X \$10,000 = \$500

Under Sec. 12-98

10% X \$10,000 = \$1,000

(Revised 11/18/2010)