

**Secretary Dennis C Wolff's Testimony
Before the Senate Agriculture and Rural Affairs Committee
Hearing on the "Farmers First Agenda"**

September 6, 2005

Lancaster Farm and Home Center

Chairmen Waugh and O'Pake, distinguished members of the Senate Agriculture and Rural Affairs Committee, and guests, my name is Dennis C Wolff and I am a dairy farmer as well as the Pennsylvania Secretary of Agriculture. On behalf of the Pennsylvania Department of Agriculture and the Rendell Administration, I appreciate the opportunity to provide comments and thank this committee for your efforts through the "Farmers First Agenda" to further the Commonwealth's goals of farmer and Farmland Preservation, increased agricultural production, a robust state economy and improved rural quality of life. Today I will provide comments on SB 252, SB 723, HB 629, along with some comments on Senator Wenger and Senator Waugh's proposal to consider transferring a portion of the realty transfer tax from the General Fund to the Commonwealth's easement program.

To begin, I would like to again recognize and thank the members of this Committee for working with Governor Rendell and me to preserve both farmland and the Pennsylvania farmer. As you are aware, the Department has been very active with new programs and efforts to foster an atmosphere of growth within our agricultural industry. Due to the support and leadership of your committee, the House Agriculture Committee, and Governor Rendell, the ACRE initiative was passed into law as Act 38. A comprehensive plan to solve interface issues where production agriculture meets the non-farm community, this new law will leave a lasting mark in PA agriculture by helping to support the legal and needed improvements and growth that PA agriculture is in need of.

The Dairy Task Force and the Center for Dairy Excellence – initiated January 2004 to help the dairy industry in PA to become more profitable—provides profit team management assistance for producers. For the eight farms that completed the pilot project, cow numbers increased by 7.2%, production per cow increased 16.7% and total milk production increased by 24.9%. The average economic impact improvement was \$249 per cow; overall economic impact for the eight farms was \$558,371, and seven of

eight farms had a positive economic impact. The First Industries Fund is \$150 million revolving loan/loan guarantee fund with up to \$100 million of these funds dedicated to agricultural projects / ag tourism industries. The first SBF loan for a farming operation was completed in April 2003. Between April 2003 and April 2005, when the CFA started approving loans through FIF, there were approximately 55 loans done to the tune of about \$8.5 million in state funding and about \$22.5 million in private funding. Since the first SBF loan was approved by the CFA in April of 2005, there have been 24 loans completed, totaling over \$2.5 million of state funding for agriculture.

We are very excited about these accomplishments and the positive results they have produced for Pennsylvania's agricultural industry. Likewise, there are many components that the Department conceptually supports in the package of bills and proposals we are discussing today. We recognize there are many components of the Farmers First Agenda that can help us build upon past successes, and we look forward to working with you and supporting the Committee and Senator Waugh and Senator Wenger in their efforts to preserve and protect the Pennsylvania family farmer. I would like to offer a few remarks that the committee may wish to consider as you consider the Farmers First Agenda.

Agriculture is the largest industry in Pennsylvania, producing over \$45 billion annually and providing approximately one in six jobs in agriculture and related business. Farmland is the foundation for Pennsylvania agriculture. Approximately 27% of the land base in Pennsylvania is agricultural land. Land is one of the most important assets for any type of farm operation. Urban sprawl has imposed an enormous threat to Pennsylvania's agricultural farming economy. In just two generations, sprawl has covered over thousands of acres of prime farmland. Although we are preserving approximately 64 acres per day in Pennsylvania, we are developing approximately 300 acres per day. As Pennsylvania loses its farms, farmland, and farmers, we lose our competitive edge and economic advantage over other states and nations regarding agricultural production, trade and power.

With respect to SB 723, the Department has participated in the development of this legislation by offering amendments to the original language, which is just one example of the partnership between this administration and the legislature to increase the availability

of funding for agricultural conservation easement purchases. Allowing counties, local governments, the commonwealth, and qualifying non-profit entities to partner in the farmland preservation effort will prove an excellent way to preserve more farm acreage. This is especially relevant, given the easement application wait list of nearly 2,000 farms. The Department and the Administration support the present version of this bill and thank the bill sponsors for their interest and support of farmland preservation.

Regarding SB 252, it is my understanding that the legislation would allow farmlands with easements to be assessed at a value of \$1/acre for state inheritance tax purposes. PDA has some concern about the impact of this bill on the General Fund. This bill would establish precedence in regard to usage of General Fund dollars that we may not be ready or able to approve. Also, I do not understand the reasoning behind selecting a \$1 value for assessment of preserved agricultural lands proposed in this bill. Would it not be a more realistic approach to consider assessing the farmlands based on a discount assessment rate or other barometers which would measure the productive agricultural use of the land when determining assessment value for inheritance tax purposes? The Department conceptually supports this concept but we would ask to work with you on the mechanics and formulas used to arrive at the inheritance tax break.

Similarly, it is my understanding the Farmers First Agenda includes a proposal to transfer a portion of the realty transfer tax collected from the General Fund to the state easement program. This proposal appears to utilize General Fund dollars for preservation efforts, which would be a concern for the administration and many members of the Legislature. I think we all will agree that the recently passed Growing Greener 2 legislation, which will provide \$80 million for farmland preservation over the next six years, is a much better vehicle, along with the Environmental Stewardship Fund, for delivering preservation dollars to counties for easement purchases. We should all be proud of what Growing Greener 2 will do to preserve productive farmland and encourage future investments in Pennsylvania agriculture.

The Department and this administration does not support House Bill 629. HB 629 in my opinion will have many unanticipated adverse effects on our nationally recognized program. This bill would amend the Agricultural Security Area Law (Act 43 of 1981) by

reducing the minimum acreage requirement for agricultural conservation easement (ACE) purchases to 25 acres (the current minimum eligibility is 50 acres).

As background, when the 50-acre minimum was established, there was considerable public debate among the State Agricultural Preservation Board, lawmakers, county officials, and the agricultural community over eligible farm size. Because easements are perpetual, the intent of setting a minimum acreage requirement was to ensure that limited preservation dollars would be spent on the purchase of easements on tracts that would remain perpetually viable for agricultural production. The Department believes that the larger the tract of land being considered for easement purchase, the higher the probability that a tract will remain a productive farm in the future. This is evidenced in the current average parcel size of tracts subject to an ACE under the state program, which is 115 acres.

As of today, the list of qualified applications for entrance into the State ACE Purchase Program is nearing 2,000 farms. This represents a 35% increase in qualified applicants that have not been funded since 2001. With the average annual increases in qualified applications, a projected total of over 2,200 eligible farms will be waiting on the backlog to be funded by early in 2006. In some instances, farms have been on county waiting lists since the program's inception in 1989. As a consequence of this backlog, some farmers have withdrawn their easement application and sold their land at a much higher development price. **The Department strongly believes that we should not be expanding the eligibility of the program when we cannot service those currently eligible.**

The average cost per acre of an ACE increases as the size of property decreases. Between 2000 and 2004, the state average size of easement purchase decreased by 13% while the average price per acre increased by 21%. When this data is examined at a county level it becomes even more dramatic. In Montgomery County, which currently has the lowest average parcel size, during the same time period, the average easement size decreased by 40% to 52 acres while the average price per acre increased 35%. The average cost per acre in 2004 was \$21,564. This data shows that by purchasing smaller

parcels, the price per acre will be higher than that of larger parcels. This will result in the Commonwealth purchasing less acreage.

In conclusion, reducing the minimum acreage requirement for participation in the state ACE easement purchase program from 50 to 25 acres, even on a voluntary basis, will have a negative effect on the program. This proposal will lead to an increase in the number of farms awaiting enrollment in the program. Additionally, it may lead to an erosion of the goodwill the program currently enjoys from the public. In the Department's opinion, the 50 acre minimum is the most viable and fairest acreage threshold option for our state program.

I appreciate this opportunity to testify on behalf of this proposal and look forward to working with you to continue our successful efforts at preserving and protecting the Pennsylvania farmer. Thank you again for taking time to listen to and consider my views and testimony this morning.