

Made in

Protecting the Rural



Cows grazing in Sheffield, Vermont. Photograph by André Jenny, courtesy of Vermont Department of Tourism and Marketing.



Vermont: Working Landscape

by Mamie Marcuss
Federal Reserve Bank of Boston

One has only to drive up Interstate 89 to understand that agriculture is an integral part of Vermont. Rolling fields, dairy cows, and red-roofed barns seem to stretch for miles outside the car window, interrupted only by mountains and the occasional village. Some 6,500 farms cover one-fifth of the Green Mountain state's land area, and directly or indirectly, they generate one out of every six jobs in Vermont. While these figures may pale in comparison with the likes of Iowa and North Dakota, where nearly 90 percent of the land is in farming, more Vermonters live in rural areas relative to any other state in the nation. Agriculture is a vital part of Vermont's identity and its economic viability.

Vermont's farms give the state its unique character—its green pastures dotted with black and white Holstein cows; its sugar shacks nestled in maple groves; its hillsides of apple orchards. The term “rural working landscape” is used frequently to describe this distinctive scenery, referring to the mixture of productive forests, farms, and fields that agriculture has imprinted on the land. For decades, this pastoral beauty and the quality of life it symbolizes are what have drawn people and dollars to the state, luring tourists and convincing people to permanently settle.

“There is no doubt about it. People like living in Vermont because of the beautiful land,” says Steve Justis, of the Vermont Agency of Agriculture, Food, and Markets. “When you look out your window, you see rolling hills and green fields.”

Beth Kennett, owner of Liberty Hill Farm, agrees, “Vermont is so beautiful. When you live here, you become connected with the land. It becomes a part of who you are.”

Today, however, Vermont's landscape is changing. Agriculture has become a global industry, and the state's farmers face increasing competition from both domestic and foreign farms. The challenging climate has taken a toll on many farmers, most notably in Vermont's largest agricultural sector, the dairy industry. More generally, since 1982 the state has seen a 20 percent reduction in its farmland, and as

of 2002, more than 50 percent of farms were losing money. As the industry struggles, Vermonters are concerned that the state is losing one of its best assets—its working farmland.

To preserve Vermont's rural identity, residents are employing a variety of strategies from agritourism to conservation. While Vermonters disagree on which efforts are the most appropriate and effective, there is widespread agreement that preserving the state's "rural working landscape" is a must.

Conservation Easements

According to some Vermonters, the best way to preserve the state's rural working landscape is by restricting the land's use to farming, forestry, or open space. To this end, several private, non-profit land trusts are working with farmers to voluntarily conserve the state's agricultural lands through a legal tool known as a conservation easement.

A relatively new instrument, conservation easements are being employed around the country for a variety of land preservation purposes, including

forestry, open space, and recreation. Typically, a landowner confers a conservation easement on his property to a land trust or a government agency. These entities acquire the development rights to the land and through the easement, dictate its future use. In Vermont, "working landscape" conservation easements are ensuring that farmland remains in farming for perpetuity, with farmers agreeing to restrict the use of their land to agricultural purposes—a condition that applies to all future owners of the land.

Looking at the statistics, conservation easements are having a substantial impact in the effort to protect Vermont's rural working landscape. According to the Vermont Land Trust, the state's largest land trust, conservation easements have been applied to 150,000 acres of farmland, or 12 percent of the state's total land in farming. Close to 20 percent of the state's dairy farms have been conserved with this tool.

The easements are also indirectly helping to preserve Vermont's rural

According to the Vermont Land Trust, conservation easements have been applied to 150,000 acres of farmland, or 12 percent of the state's total land in farming. Close to 20 percent of the state's dairy farms have been conserved with this tool.

working landscape by assisting farmers in a number of ways. First, farmers financially benefit when they transfer a conservation easement to a land trust. They are compensated for the value of the easement either in the form of proceeds if it is sold to the land trust or in tax deductions if it is donated. Depending on the deal, the remuneration can be hefty as the easement is typically valued as the difference between the current fair market price of the land and the estimated value of the land once the easement is attached. For example, a particular farm would currently sell for \$500,000 on the market. Once the use of the farm and its land is restricted solely to farming, the price drops to \$350,000. The difference, \$150,000, is the value of the conservation easement.

The revenue generated by conservation easements is keeping many of the state's farmers afloat. According to a recent Vermont Land Trust survey of participating farmers, nearly two-thirds used the resulting funds to pay down debt. Additionally, farmers used the capital to purchase more land, make needed infrastructure improvements, and finance their retirements. "Since they do not plan to use their land for anything but farming, many farmers view a conservation easement as a non-performing asset," says Alex Wylie, agricultural director of the Vermont Land Trust. "They realize they could use the funds for other purposes, so they cash in their development rights."



Beth Kennett at Liberty Hill Farm in Rochester, Vermont. Photograph by Dennis Curran, courtesy of Vermont Department of Tourism and Marketing.

Conservation easements also allow farmers to continue to own and operate their farm as before. As such, easements are helping to maintain the farming economy in some communities, potentially multiplying the effect on landscape preservation. For example, in several towns, the Vermont Land Trust has conserved between 7,000 and 8,000 acres of contiguous farmland. This scale of conservation creates a critical mass of farms to support an agricultural economy. “When a town loses its farms, it also loses the jobs that service the farms—the veterinarians, the machinery retailers, the feed suppliers. But, if a town can maintain a cluster of farms, it can continue to support all of these jobs,” says Wylie.

Finally, some think that conservation easements have made farmland more affordable for new farmers. By limiting land use to agricultural purposes in perpetuity, the easements have, in many cases, eliminated competition from developers over conserved parcels. With less demand, the price of conserved farmland has fallen. “The conservation effort has allowed more people to get into farming,” says Wylie. Moreover, by providing a mechanism to keep family farms within families, Wylie adds, conservation easements have “opened the door for the next generation of farmers.”

Despite the many channels through which conservation easements are working to preserve the state’s rural working landscape, critics point to several problems with their use. Questions have been raised about the financial and organizational capacity of land trusts to monitor and enforce their conservation easements, both now and in the future. Surveys conducted by the Land Trust Alliance found that one-third of northern New England’s land trusts do not perform documented monitoring on their properties, and nationwide, 80 percent of land trusts believe that some of their land holdings will not be conserved in 100 years because of enforcement issues. Additionally, with most conservation easements being less than

two decades old, some worry that they will not be able to weather future changes in landownership, evolving community land-use needs, and inevitable legal challenges. Moreover, it is unclear what will happen to easements if the land trust that holds them dissolves.

The valuation of conservation easements has also raised concerns. An inherently complex and subjective process, the appraisal of conservation easements is open to a myriad of abuses. For example, landowners may overvalue their easements to maximize their tax deductions or the profits from the easement’s sale. Most commonly, the current value of the land is estimated at its highest and best usage price—the price it would draw if the land were subdivided and sold to several developers. But in many cases, there is little demand for this land use, particularly

in remote areas, and the value of the easement is overstated. Sometimes, landowners are paid for conservation easements with little to no value—easements on land that would have remained preserved without them, such as a flood plain, steep hillside, or property subject to restrictive zoning regulations. Occasionally, profits are made from easements that actually increase the value of the land, with real estate agents advertising them as an asset. While the majority of conservation easements are valued appropriately, abuses are common and costly enough that the IRS has issued a public notice threatening fines, excise taxes, and even loss of nonprofit status for landowners



Vermont produce for sale at a farmstand. Photograph by Kindra Klineff, courtesy of Vermont Department of Tourism and Marketing.

and land trusts who exploit the system.

These concerns have many wondering whether conservation easements are the most cost-effective way to protect the state’s rural working landscape. Still, conservation easements may work better in Vermont than in other states thanks to a strong organizational infrastructure. Specifically, the state has established the Vermont Housing and Conservation Board, a unique agency charged with overseeing land conservation and affordable housing in the state. VHCB provides financial support and oversight on many conservation easement deals, and it applies rigorous standards to all of its projects—standards it hopes will protect against both abuses



Carrie Chalmers at her farmstand in Weston, Vermont. Photograph by Peter Miller, courtesy of Vermont Department of Tourism and Marketing.

and future uncertainty. The VHCBC and the Vermont Land Trust work closely together, and both have taken steps to ensure the perpetuity of their conservation easements. Both organizations have established back-up plans to protect their holdings in the case of dissolution. They have set up systems to annually monitor each of their properties, and the Vermont Land Trust also aids smaller land trusts with enforcement issues. Finally, both organizations focus on the quality of the land they conserve. According to Alex Wylie, “when conserving land, it is vital to make sure that easements will not infringe on future plans for development. We are not interested in impeding development; we are interested in conserving farmland for farming. We want to conserve the land whose best use is agriculture.”

Promoting Vermont’s Agricultural Products

Instead of focusing on land-use preservation, some Vermonters are working to protect the state’s rural working landscape by supporting the economic viability of the state’s farmers. “The best way to save Vermont’s farmland is by keeping farmers farming,” says Beth Kennett, owner of Liberty Hill Farm.

As global competition drives down prices for standard agricultural commodities, some believe specialty and gourmet farm products are the key to preserving Vermont’s farms. Thus, many farms are shifting their focus. Some are scaling down to concentrate on high-end foods like artisan cheeses. Others are going the organic route, while still others are creating value-added Vermont products like homemade salsa and natural salad dressing.

The success of these enterprises relies in part on maintaining the state’s fame for specialty foods, such as maple syrup, cheddar cheese, and apple cider.

The Vermont Agency of Agriculture, Food, and Markets is lending its hand in this arena, developing several programs that market the high quality and unique nature of Vermont’s agricultural products. For example, the

“The best way to save Vermont’s farmland is by keeping farmers farming,” says Beth Kennett.

Vermont Seal of Quality program recognizes agricultural products that have met certain standards of excellence. Recipients display the seal on their product, helping consumers correlate quality with Vermont. Originally created in the 1970s to help McDonald’s identify those Vermont farmers who were producing USDA-quality eggs, the program now covers nearly a dozen categories of products, and over 600 producers have been awarded the Seal of Quality. Today, maple syrup is the most common product to carry the Seal; Cow Power™ is the most unusual. Aptly named, CowPower™ is energy produced from cow manure from Vermont’s dairy farms. Last year, Central Vermont Public Service applied for and received the Commissioner’s Choice Seal of Quality for its unique energy product, a designation reserved solely for high-quality farm products that are 100 percent produced and processed in Vermont.

Cow Power’s™ Seal of Quality illustrates the extension of the program to a wider set of farm products in a conscious effort to market the Vermont brand to a larger audience. By allowing consumers to identify a greater range of products that are made in Vermont, the Agency of Agriculture, Food, and Markets hopes the program will generate higher profit margins for the state’s farmers. “Research indicates that consumers want to buy local

A Vermont Farm Vacation

Beth and Bob Kennett are the owners of Liberty Hill Farm just outside of Rochester, Vermont. They were among the first Vermont farmers to enter the agritourism business when, in 1984, they opened their dairy farm to tourists. The decision was a matter of survival. “In the early 1980s, the price of milk had taken a nose dive,” recounts Beth. “We quickly realized that we needed to diversify our income. We looked around at our assets and decided to turn this big old farm house into a bed and breakfast.” The B&B enterprise was fairly successful, but the Kennetts noticed that visitors were coming to Liberty Hill Farm not just for lodging, but because they wanted a first hand farm experience. Seeing a profitable market niche, they decided to expand their inn into a full-scale farm vacation destination.

Today, Liberty Hill Farm is both an active dairy farm and an agricultural vacation spot. Overnight guests can spend the day with the Kennetts in the barn, where they can feed baby calves, try their

hand milking Rosie the cow, or simply watch Beth, Bob, and their sons in action. The farm also provides a launching ground for other quintessential Vermont activities, including hiking, mountain biking, and antique shopping in nearby Rochester. Guests tend to wander back to the farmhouse for dinner around 6:00 p.m. where they partake of a home-made feast of New England fare featuring ingredients fresh from the farm.

In addition to supporting their livelihood, the Kennetts hope their farm vacations will promote Vermont’s farms on a larger scale. By exposing their guests to one set of Vermont products and experiences, they believe they will encourage them to try others. “In essence, much of agritourism is direct marketing of farm products,” says Beth. “It combines Vermont products with a Vermont experience, whether it’s pick-your-own apples, hay rides, a pie being prepared right in front of you, or a close-up encounter with the cows that supplied the milk for your cheese.”

The Kennetts believe that agritourism can benefit the entire farming community, including those not directly involved—especially if farmers cross-market their goods with those of other farms. Beth and Bob highlight the fact that the milk from Liberty Hill Farm is used in the production of Cabot and Grafton cheeses. They hope that greater brand awareness among their guests will increase purchases of these cheeses, in turn, supporting all of the dairy farms that supply these creameries.



Liberty Hill Farm in Rochester, Vermont. Photograph by Dennis Curran. Courtesy of Vermont Department of Tourism and Marketing.

Vermont products, and they are willing to pay significantly more for them,” says Steve Justis, the state’s coordinator for the program.

While the Seal of Quality program is seeking to extend the Vermont brand name, other state officials are working to protect it. Aware of the currency carried by the Vermont name, numerous compa-

nies both inside and outside of Vermont have incorporated the state’s name in their products’ packaging, labeling, and advertisements. “Vermont has a very strong brand identity. In the private sector, companies pay millions to create an image as strong as the one that Vermont already has,” says Jason Aldous, communications specialist for the state’s

Department of Travel and Tourism.

Worried that overuse of the Vermont name will dilute the reputation of the state’s agricultural products, in 2003, the state’s attorney general proposed tighter regulations for labeling products as Vermont-made. The changes were intended to protect consumers from deceptive marketing and to uphold the

Saving Farms at the Grocery Store?

Three summers ago, after studying food consumption statistics, the Agency of Agriculture, Food, and Markets found that if all Vermonters shifted 10 percent of their food purchases to Vermont products, over \$100 million would be generated for the state's agricultural economy—a major boost for a sector whose sales are less than \$500 million a year. “We were shocked by this figure,” says Jennifer Grahovac, one of the state's agricultural development coordinators.

To make these numbers an economic reality, the Agency launched the “Buy Local—The 10% Difference” campaign. The state developed promotional materials and distributed them at no cost to farmers, grocers, and other retailers who wanted to highlight their locally grown products. The campaign specifically targeted fruits and vegetables—a food group generally lacking indicators of origin.

So far, support for the Buy Local campaign has been positive. Governor Douglas has made a number of public service

announcements about the program. Several restaurants are using the campaign logo to highlight farm fresh ingredients in their dishes, and each year more retailers are joining the effort. The increased attention on locally grown products seems to be benefiting farmers. A recent survey of participating farmers said that they have seen an increase in sales since the campaign began three years ago. Grahovac believes the simplicity of the program is the key to its success. “Most people in Vermont want to support the local farms, but it seems so complicated. The ‘Buy Local’ campaign creates a framework that folks can easily wrap their mind around and say, ‘I can do that.’”

Some feel, however, that the program is only the tip of the iceberg. “Buying local is extremely important, but we need to do more to market this concept,” says Beth Kennett, a Vermont farmer. “We need to educate consumers about the impacts their choices at the grocery store have on farmers.”



Sorbet, made in Vermont, displayed on a grocery store shelf. Photograph by Mamie Marcuss, Federal Reserve Bank of Boston.

regard of Vermont's farm products. In particular, regulators were concerned that the out-of-state use of the Vermont name on inferior products would tarnish the state's reputation for high-quality specialty foods. Lawmakers were especially concerned about the state's heritage products such as milk, maple syrup, and apple cider—products consumers have come to expect to be of high quality and of local origin.

The proposed regulation is not without controversy. While some of Vermont's farmers and food producers have lauded the effort to end fraud, others feel that lawmakers have not considered all of the implications of limiting the use of the Vermont name.

In particular, the changes will require all component materials of certain products to be wholly of Vermont origin, standing to prohibit a number of established Vermont companies from labeling their products with the Vermont name. For example, Cold Hollow Cider Mill in Waterbury, Vermont, imports out-of-state apples for its on-site cider production because the state's apple crop is insufficient to meet the company's needs. Under the proposed regulation, Cold Hollow would no longer be able to claim it produces Vermont cider.

Businesses groups throughout the state have cautioned that the proposed regulation will impose significant costs

to “value-added,” or food processing, companies like Cold Hollow—companies that are increasingly intertwined with the economic well-being of the state's farmers. “Value-added processing is essential to the survival of New England agriculture,” says Justis. He adds that in 2004, value-added companies contributed \$1 billion to the agricultural economy—nearly twice as much as farming operations. The proposed rule remains under debate, and government officials agree that the concerns of the value-added sector must be addressed as the state works to preserve its rural working landscape.

Agritourism

In a recent study, the Vermont Department of Travel and Tourism found that tourists generated \$1.5 billion in direct spending for the state in 2003, accounting for nearly 10 percent of all economic activity for the year. Tourism is a major component of Vermont's economy and, according to Jason Aldous, director of communications for the department, one that intersects naturally with Vermont's rural working landscape. In fact, agriculture is one of five main themes that tourism officials use to market the state to visitors, and Vermont's farms differentiate it from other vacation spots. "In terms of a tourism destination, Vermont's authentic working farms represent our biggest advantage over the rest of New England. People come for the authenticity," says Aldous.

Historically, farmers' biggest contribution to tourism was the scenic backdrop that they provided. But increasingly, the farms themselves are becoming vacation destinations. More and more farmers are opening their doors to tourists, offering them everything from cheese tours to nature walks, from hay rides to overnight stays. Collectively, activities that provide visitors with an agricultural experience are known as agritourism, a cottage industry that some hope will help to preserve the rural working landscape by helping farmers increase and diversify their income.

According to the latest survey, an estimated 2,200 Vermont farms, one third of all Vermont farms, participate in the agritourism industry. The decision to establish an agritourism enterprise is a function of economic survival for most of these farmers. A survey conducted in neighboring New York revealed that as many as 82 percent of farmers who are engaged in agritourism entered the business to increase the economic prosperity of their farm. For Vermont farmers, an agritourism business brings in on average an extra \$8,900 a year—a significant contribution considering total annual income from farming operations averages just under \$15,500. In addition to supplementing income, sales to tourists help diversify a farm's revenue streams. This

income heterogeneity is critical for many of the state's single-commodity producing establishments, especially the state's dairy farms whose economic welfare is otherwise tied to the fluctuating price of milk. "There is no doubt that agritourism saved our farm," believes Beth Kennett, owner of Liberty Hill Farm. "Twenty years ago, there were 11 dairy farms in our valley. Today, we are the only one left. Agritourism allowed us to successfully weather the ups and downs of dairy prices."

Agriculture is one of five main themes that tourism officials use to market the state to visitors.

As more farmers enter the agritourism business, its statewide impact has grown. Between 2000 and 2002, total agritourism income in the state rose an astounding 86 percent, reaching \$19.5 million, and today, the concept is being touted as a larger strategy for rural economic development and farmland preservation. "There are three factors that

uniquely position Vermont to have a successful agritourism industry," says Kennett, who is also the president of Vermont Farms! Association, a nonprofit organization committed to preserving the rural working landscape through agritourism. "One, there are enough operational farms to create a working landscape. Two, Vermont has a wide variety of farms, allowing visitors to have an array of agricultural experiences in one trip. Three, Vermont has several niche products that intrigue tourists, including maple syrup."

Despite the state's natural strengths in agritourism, the industry is not a panacea for saving Vermont's farms. Like starting any small business, the costs of entry are high. Initial investments in planning, infrastructure, and marketing may be substantial, especially for those farms interested in larger agritourism enterprises such as bed and breakfasts. Additionally, expensive liability and business insurance must be purchased, and a range of regulatory issues must be addressed, covering everything from public health and safety to zoning, licensing, and taxes. Moreover, the risks of an



Home grown produce in East Burke, Vermont. Photograph by Dennis Curran. Courtesy of Vermont Department of Tourism and Marketing.

agritourism business are great. In neighboring New York, 25 percent of agritourism farmers reported net losses in a 2000 survey, and 7 percent were considering going out of business. Agritourism enterprises also have the potential to interfere with farming operations, result in a loss of privacy, or require a considerable time commitment.

Researchers have also raised questions about how much agritourism can actually help sustain the rural identity of a community. A rise in tourism may be accompanied by an increase in unsightly signage, traffic congestion, or a strain on public services. Housing and land prices may be pushed up by second home purchases, in turn, creating strong incentives to sell farmland for housing development. Further, tourist activities may create stress on the land and lead to environmental degradation. Finally, agritourism is simply not a feasible solution for parts of the state where tourist visits are infrequent, such as the far northern counties of Orleans and Essex.

Vermont Spirit

While none of the above solutions is without its flaws and caveats, each contributes to the protection of Vermont's "rural working landscape." Taken together, Vermonters hope these and other strategies will be enough to slow the tide against the eroding agricultural economy. If not, the state's residents will surely find new ways to preserve the spirit of rural Vermont. "Once we lose our farmland, we will never get it back," says Jennifer Grahovac of the Vermont Agency for Agriculture, Food, and Markets. "We have to make sure Vermont stays how it is—its beauty is what attracts all of us here."

References

2002 Census of Agriculture. National Agricultural Statistics Service. U.S. Department of Agriculture.

Barna, Ed. "Diversity, value-added products support struggling farms." *Vermont Business Magazine.* Volume 31, Issue 9. August 1, 2003.

Gold, David H. "Legal Strategies to Address the Misrepresentation of Vermont Maple Syrup," Working Paper, Harvard Law School. 2003.



Field of dandelions in Cabot, Vermont. Photograph by Dennis Curran, courtesy of Vermont Department of Tourism and Marketing.

Kuehan, Diane and Duncan Hilchey. "Agritourism in New York: Management and Operations." New York Sea Grant Fact Sheet, New York Sea Grant Extension Program. 2001.

Petric, Lidija. "Constraints and the possibilities of rural tourism with special stress on the case of Croatia." Working Paper, University of Jyväskylä, Finland. 2003.

Pidot, Jeff. "Reinventing Conservation Easements: A Critical Examination and Ideas for Reform." Working Paper, Lincoln Institute of Land Policy. 2005.

"Representation of Vermont Origin." Rule CF 120. Vermont Attorney General Consumer Protection Adopted Pursuant to 9 V.S.A. - 2453 (c).

Streeter, Deborah and Nelson L. Bills. "Value-Added Ag-Based Economic Development: A Panacea or False Promise?" Working Paper, Department of Applied Economics and Management, Cornell University. February 2003.

The Economics of Food, Farming, Natural Resources, and Rural America. Economic Research Service, U.S. Department of Agriculture.

"The Impact of Vermont's Farmland Conservation Program on Program Participants – Executive Summary." Vermont Land Trust and the American Farmland Trust. November 1999.

"Vermont Agri-Tourism 2002." Report of the New England Agricultural Statistics Service. 2004.