



City of Virginia Beach
Agricultural Reserve Program
2016 Fiscal Year Report

“Preserving agriculture, one farm at a time”



Picture of the Burroughs Farm enrolled in November 2015



City of Virginia Beach

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VIRGINIA BEACH, VIRGINIA 23456

August 30, 2016

The Honorable Mayor William D. Sessoms, Jr.
Members of City Council

Subject: Agricultural Reserve Program (ARP) Fiscal Year Report for 2016

Dear Mayor and Council Members:

It is my pleasure to present to you the Agricultural Reserve Program Fiscal Year Report for 2016. The Agricultural Reserve Program was successful in purchasing the development rights on over 50 acres during FY 2016. Details for the acquisition are included in the attached report.

The Agricultural Reserve Program is funded with a dedicated portion of the collected real estate tax. For FY 2016, the real estate tax dedication yielded \$2,858,168.34 to fund new acquisitions, pay current interest payment obligations and provide a budget for operational expenses. The ARP uses an installment purchase agreement that is made between the City and the landowner to make payments over the 25 year payment plan. Interest payments are made on the principal for the life of the payment plan and the principal payment is paid at completion. Interest payments on the principal are made in June and December each year to the current holder. This innovative financial tool allows the City to leverage its funds over a 25 year term, which allows more funding to be available for new purchases each year.

In addition to local funding, staff has been able to secure funding from the Virginia Department of Agriculture and Consumer Services through their Office of Farmland Preservation. The most recent agreement was approved in February 2016 for \$411,890.87. This funding provides up to a 50% match to related costs of enrolling property into the ARP.

Our purchase of development rights program, the ARP, is currently one of the most successful in the Commonwealth by preserving over 9,315 acres. The ARP compliments Governor McAuliffe's initiative and goal of protecting agricultural land for future generations and preserving the Commonwealth's overall number one industry, agriculture. During FY 2016, eleven new ARP applications were submitted for review representing over 795 acres. On June 30, 2016, there were a total of 18 applications representing over 1,375 acres in various stages of the ARP review process. Therefore, more closings are projected in FY 2017.

The Honorable Mayor William D. Sessoms, Jr.
Members of City Council
Agricultural Reserve Program (ARP) Fiscal Year Report for 2016
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I would like to thank the City Council for their continued support of the ARP and preserving the land base for the agricultural industry. Should you have any questions regarding the content of this report, please feel free to contact Jenny McPherson, Agricultural Reserve Program Coordinator, at 385-8637 or via email at jsmcpher@vbgov.com.

Respectfully,



David E. Trimmer
Director

DET/jm

Attachment

cc: Mr. Mike Cullipher, Agricultural Advisory Commissioner
Ms. Diane Horsley, Agricultural Advisory Commissioner
Mr. John Cromwell, Agricultural Advisory Commissioner
Mr. Arnold Dawley, Agricultural Advisory Commissioner
Mr. Bart Frye, Agricultural Advisory Commissioner
Mr. David L. Hansen, City Manager
Mr. Doug Smith, Deputy City Manager
Ms. Jenny McPherson, Agricultural Reserve Program Coordinator

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Mission of the Department of Agriculture

The Department of Agriculture provides leadership, coordination and education to enhance the economic vitality of the City's agricultural industry and the preservation and enhancement of its quality physical environment, and it also assists citizens in strengthening their families and provides citizens and visitors with cultural and recreational opportunities by preserving our agricultural and rural heritage.

The Department of Agriculture also contains the offices of the local Virginia Cooperative Extension as well as the Virginia Dare Soil and Water Conservation District.

Mission of the Agricultural Advisory Commission

The City of Virginia Beach Agricultural Advisory Commission was established by City Council in August 1994 to be a liaison between the rural community and the City Council. The five member commission meets quarterly to discuss important issues and items of concern for the rural community and the agricultural industry. The commission is also given updates on the status of Agricultural Reserve Program applications at every meeting as well as other activities of the department and its partnering agencies.

Members of the Agricultural Advisory Commission

City Council Liaison

Barbara Henley

Commission Members

Mike Cullipher, Chair
Diane Horsley, Vice Chair
John Cromwell, Secretary
Arnold Dawley
Bart Frye

Agricultural Reserve Program

The City of Virginia Beach enacted the Agricultural Lands Preservation Ordinance and the Virginia Beach Agricultural Reserve Program (ARP) on May 9, 1995. The program was designed and promoted by a coalition of farm, conservation, business, and civic interests. There was common concern for resource and growth management, as well as preservation of agri-business and a balanced tax base. Virginia Beach's program is very successful and is the leading program in the Commonwealth. The program is recognized at both the state and national level for conserving our natural resources, protecting the rural character and heritage of southern Virginia Beach and preserving the agriculture land base of the City's third largest industry.

Funding for ARP

The Agricultural Reserve Program (ARP) is one of the best funded programs in the Commonwealth thanks to City Council's dedication to the program to make sure that it is adequately funded. Funding for the ARP is provided through a dedicated portion of the real estate tax that is collected annually. The dedicated rate was lowered in the new budget from 0.9 cent to 0.56 cent. For FY 2016, the total income was approximately \$2,858,168.34. Of this revenue stream, \$2,254,059.17 was paid in interest payments to our current participants. With every closing and property that is enrolled, the annual interest payments increase. The remaining funds are used for new acquisitions as well as office operating costs.

The Virginia Department of Agriculture and Consumer Services (VDACS), through their Office of Farmland Preservation, have provided grant funding to localities to further their efforts in purchasing development rights from agricultural landowners. Funding was first allocated to certified programs across the state in 2008. Since then, City Council has approved nine Intergovernmental Agreements with VDACS. The latest agreement was approved in February 2016. This agreement authorized \$411,890.87 in matching funds to help offset and reimburse easement acquisition costs for closings occurring through December 2017. It is anticipated that funds from this new agreement will be utilized during FY 2017. To date, the City has utilized a total of \$925,543.66 in reimbursement funding from VDACS on closed properties. The reimbursements have helped offset the City's initial easement acquisition expenses thus making additional funds available for future ARP closings.

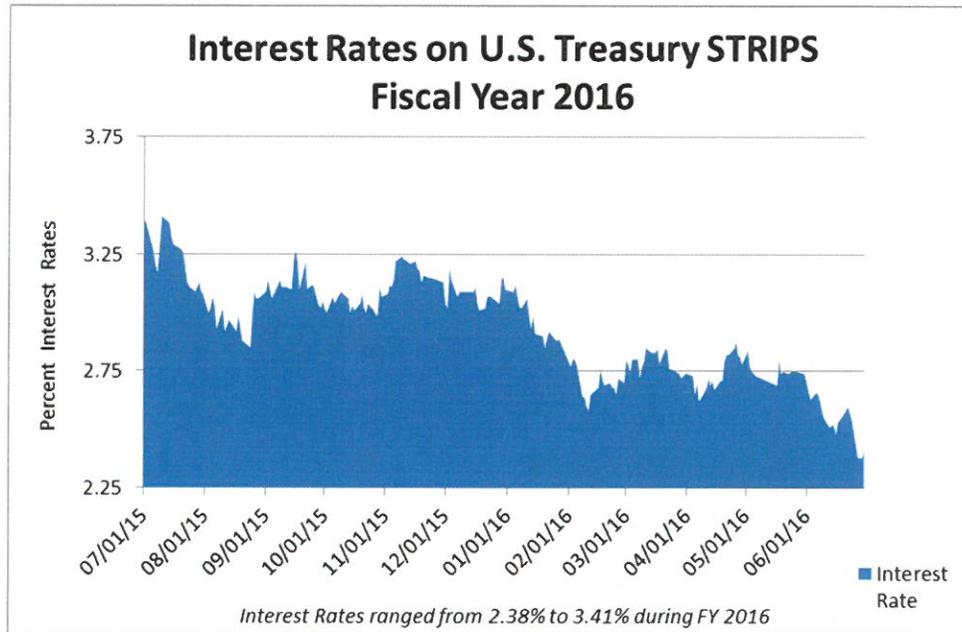
The City uses a 25 year Installment Purchase Agreement (IPA) to compensate landowners for their easement value. To fund the principal purchase price, the City purchases U.S. Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS) that will mature in 25 years. By doing this, the City is able to leverage its dollars invested over the 25 year payment plan. Initial costs to purchase the U.S. Treasury STRIPS for the closing in FY 2016 were approximately 45 cents on the dollar. Semi-annual interest payments are made to landowners in June and December each year. The installment purchase agreements allow more property to be purchased over time compared to cash closings. In addition, the landowners receive a tax free income stream of interest payments during the 25 year payment plan. The principal payment that is paid in full at the end of the payment plan is subject to capital gains just like any other real estate transaction.

Interest Rates for ARP

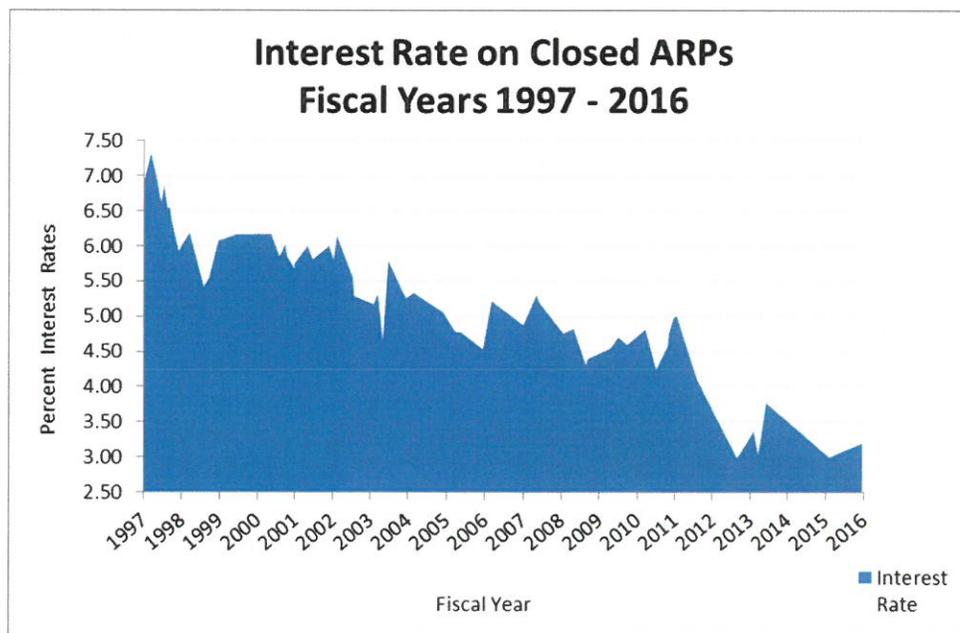
The final interest rate for an ARP easement is determined a few days prior to a closing. The City bids the purchase of the U.S. Treasury STRIPS to obtain the best buy-in price as well as interest rate. A higher interest rate yields a lower buy-in rate for the City since the higher rate will accrue more interest on the initial investment over time to fund the principal payment. In comparison, a lower interest rate requires a higher buy-in rate to yield the same amount of principal. Once the purchase is made, the interest rate is locked in for the 25 year payment plan. In order to see how the interest rate market is performing on the U.S. Treasury STRIPS, staff periodically checks the Wall Street Journal website where rates are posted for each business day. The interest rates posted are based on a \$1,000,000 transaction. The website provides an indicator of what the market is doing day to day. When actual bids are placed for a closing, some variance is seen based on the amount of the transaction and the local market.

Interest Rates for ARP (continued)

The following chart shows interest rates on the U.S. Treasury STRIPS that were tracked periodically by staff during FY 2016 from the Wall Street Journal website. The highest interest rate of 3.41% occurred at the beginning of the fiscal year in July 2015. Despite some times of recovery on the market, an overall decrease in interest rates was seen for the fiscal year, ending with the lowest interest rate of 2.38% recorded in June 2016. Rates have been below 3.50% for the entire year. For comparison, rates recorded in FY 2015 ranged from 2.34% to 3.64%.



The chart below shows interest rates for all closings in ARP. The highest interest rate paid in the program's history was associated with a closing that occurred in April 1997 at 7.33%. In contrast, the lowest interest rate paid of 2.99% was associated with a closing in October 2012.



Enrollments in ARP for FY 2016

In FY 2016, one application containing one parcel representing a total of 50.47 acres was enrolled into the ARP. The closing date, acres enrolled, number of development rights acquired, interest rate and purchase price are listed for the application in the table below:

New ARP Property Enrolled During Fiscal Year 2016

<i>Applicant Name and Location of Property</i>	<i>Closing Date</i>	<i>Acres Enrolled</i>	<i>Development Rights Acquired</i>	<i>Interest Rate</i>	<i>Purchase Price</i>
Burroughs Family Revocable Trust - Muddy Creek Road	11/18/2015	50.47	2	3.201%	\$565,264.00

Even though the above closing represents an easement value of \$565,264, the City’s actual cost of the U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal Securities) to fund the purchase price for the easement above was \$255,832.00. The cost of the U.S. Treasury STRIPS was approximately 45 cents on the dollar.

The Virginia Department of Agriculture and Consumer Services (VDACS) provided \$282,632.00 in reimbursement funding to help offset easement acquisition costs, which furthers local dollars to fund more easements.

The interest rate for the closing above was 3.201%. By periodically checking the Wall Street Journal’s webpage, FY 2016 interest rates have ranged from 2.38% to 3.41% on the U.S. Treasury STRIPS market.

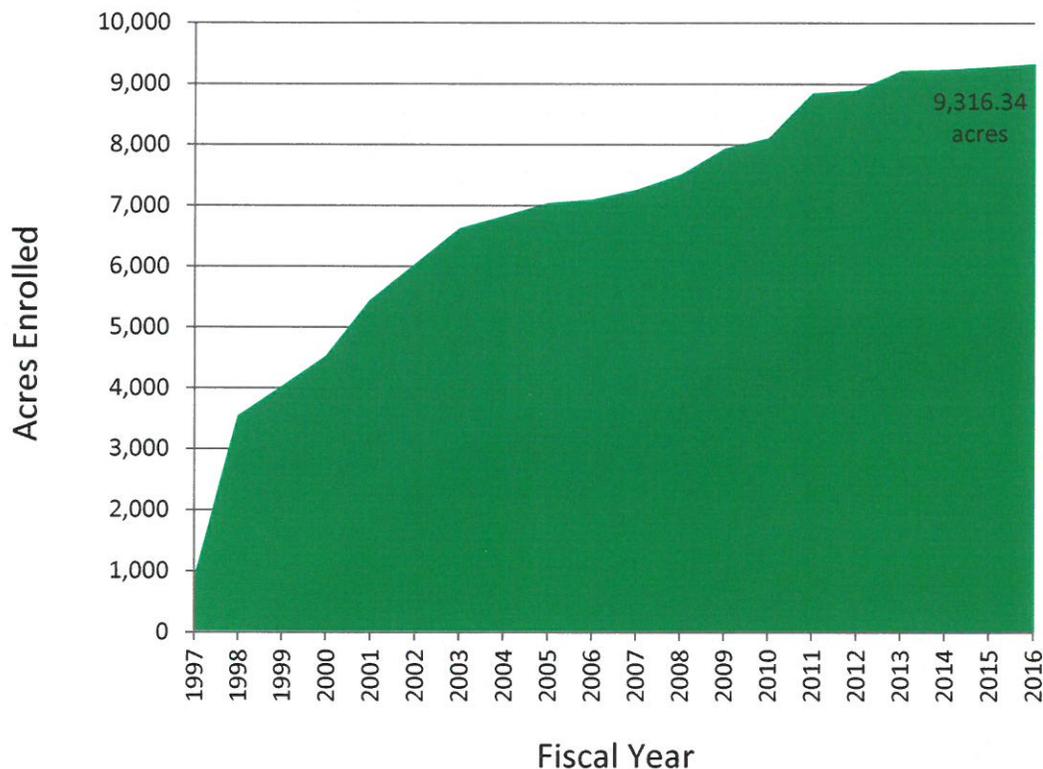
During FY 2016, eleven new applications representing over 795 acres were submitted for review.

Enrollments in ARP from FY 1997 through FY 2016

The graph below shows the cumulative number of acres that have been enrolled by fiscal year in the history of the program. The greatest amount of enrollments in one year was seen in FY 1998 shortly after the program was adopted. This past year represented one property that closed. It is anticipated that more closings will occur in FY 2017.

The ARP is a voluntary program and many factors can have an effect on a landowner’s decision to enroll his or her property. The purchase price of the easement and the current interest rates are sometimes the most discussed factors with staff. The interest rate especially was an item of concern for many applications during FY 2016. Applications also take a certain amount of time to process, so one year, there may be more applications received with few closings, compared to another year with more closings and less applications received. Therefore, over time, the number of closings and acres enrolled per year fluctuates.

**Agricultural Reserve Program (ARP)
Cumulative Enrolled Acres**



Fiscal Year	Acres Enrolled
1997	835.32
1998	2,692.90
1999	480.92
2000	499.46
2001	924.35
2002	585.47
2003	586.72
2004	206.22
2005	213.57
2006	53.81
2007	165.59
2008	246.44
2009	428.07
2010	173.21
2011	739.61
2012	47.21
2013	321.62
2014	23.12
2015	42.26
2016	50.47

■ Acres Enrolled

ARP Properties Enrolled Since 1997

The closing dates, acres enrolled, number of development rights acquired and purchase price are listed for each application in the table below:

Applicants	Closing Date	Acres Enrolled	Development Rights Acquired	Purchase Price
Gregory, David & Ann & Flanagan, Katie	2-19-97	48.24	8	\$274,093.00
Shealy, Faye & Powell, Beverly	4-22-97	46.10	3	\$77,448.00
Shealy, Faye	4-22-97	39.64	*	*
Powell, Beverly	4-22-97	35.16	*	*
Frost, Irene	4-22-97	49.27	4	\$93,705.00
Frost, Ralph	4-22-97	310.21	30	\$841,238.00
Shealy, Faye & Powell, Beverly	4-22-97	224.84	22	\$736,316.00
Chaplain, William	6-24-97	81.86	7	\$188,266.00
Kaye, Tom	7-8-97	27.75	3	\$126,956.00
Tebault, Earl & Laura	7-30-97	205.39	20	\$567,268.00
Baum Family	8-5-97	471.67	43	\$833,557.00
Baum Family	8-5-97	107.35	7	*
Brown, Ernest	8-27-97	92.28	10	\$175,332.00
Dawley Farms, LLC	8-27-97	233.06	54	\$2,467,500.00
Dawley Farms, LLC	8-27-97	217.97	*	*
Dawley Farms, LLC	8-27-97	91.80	*	*
Freeman, Joseph	9-30-97	160.17	17	\$617,596.00
Freeman, Joseph	9-30-97	109.85	2	*
Simons, Clyde	10-17-97	27.31	1	\$23,156.00
Lusk, Betty	10-29-97	304.66	17	\$587,626.00
Lusk, Betty	10-29-97	47.98	2	\$67,898.00
Venable, Margaret	11-14-97	117.12	11	\$308,980.00
Chaplain, Margaret	1-28-98	169.88	9	\$328,464.00
Waller, George	4-29-98	308.66	34	\$845,386.00
Hudgins, William & Malvine	9-16-98	209.00	18	\$545,490.00
Foster, Shreeves & Moore Group	9-23-98	70.72	4	\$79,035.00
Baum, John	11-4-98	158.00	15	\$221,548.00
Flanagan, Roy David	6-2-99	43.20	7	\$188,288.00
Gilbert, Luther	9-1-99	166.95	22	\$443,813.00
DLK & CLK	6-28-00	332.51	28	\$1,999,046.00
Pendleton, G. B. & Juanita	9-13-00	288.01	25	\$689,477.00
Davenport, Robin	11-8-00	125.66	14	\$285,876.00
Arnold, Robert	11-29-00	103.24	8	\$256,036.00
Orr, William & Lillian	11-29-00	29.07	2	\$127,908.00
Jensen, Ken & Buffington, Caroline & Jay	2-7-01	90.50	10	\$213,909.00
Furlough, Mildred	2-7-01	147.98	13	\$318,903.00
Furlough, Mildred	6-13-01	139.89	13	\$274,649.00

*Indicates that record was included in a lump sum purchase with the row(s) above.

ARP Properties Enrolled Since 1997 (continued)

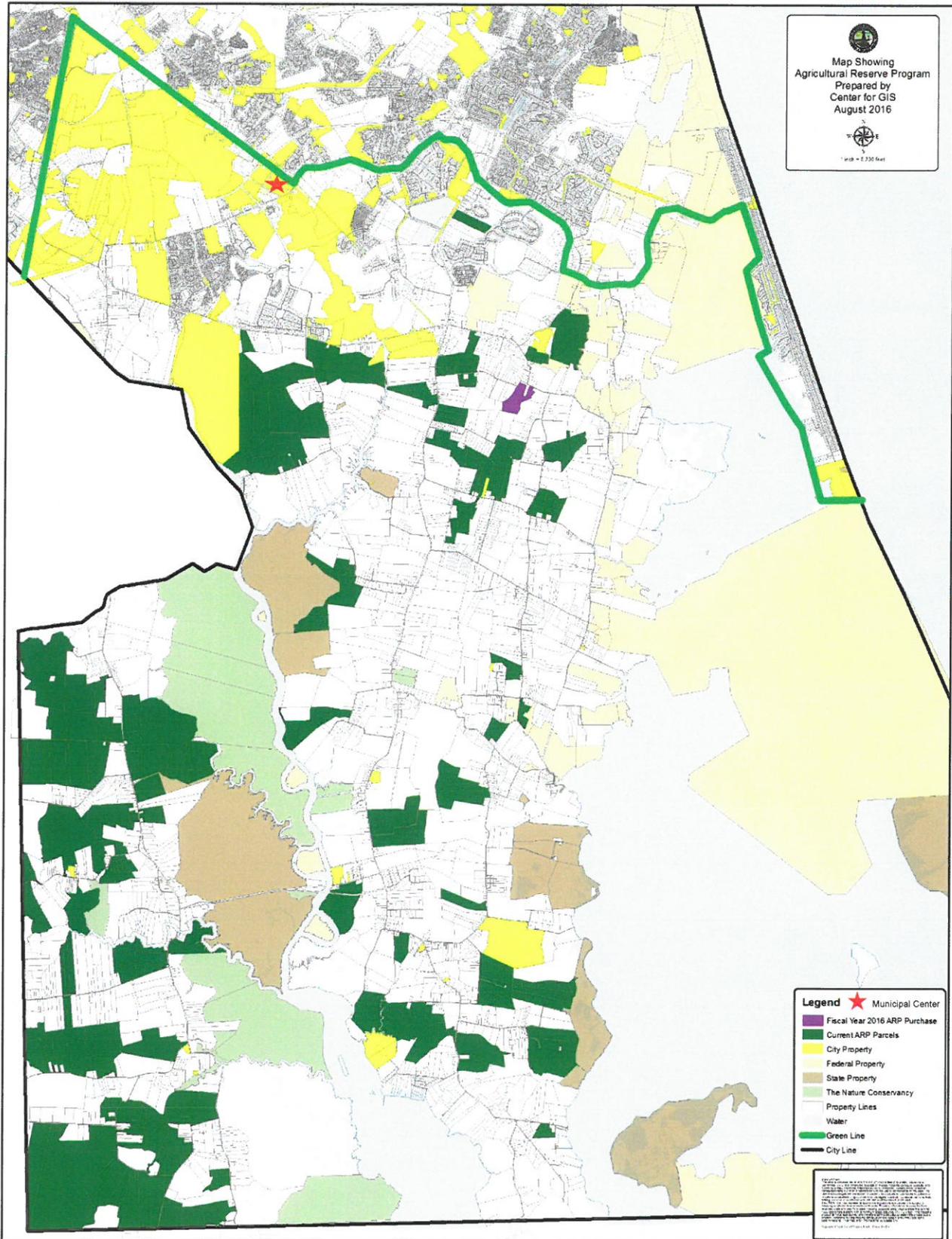
Applicants	Closing Date	Acres Enrolled	Development Rights Acquired	Purchase Price
Cromwell, John W. & Elizabeth	8-1-01	136.40	14	\$1,205,434.00
Williamson, Nancy	12-19-01	39.68	4	\$678,528.00
Lewis, Charles	12-19-01	138.26	12	\$426,631.00
Allen, Tom & Rebecca	1-9-02	37.56	3	\$129,582.00
Bright, Gene & David	2-20-02	63.33	8	\$512,973.00
Bright, Roseanne	2-20-02	43.25	3	\$141,860.00
Chesapeake Land Development, LLC	3-20-02	42.10	4	\$200,065.00
Chesapeake Land Development, LLC	3-20-02	84.89	7	\$349,316.00
Vaughan Family	8-28-02	190.01	16	\$816,042.00
Patsel, Margaret	9-11-02	17.98	2	\$55,738.00
Lancaster, John	10-23-02	117.14	12	\$335,201.00
Knight, Barry & Paula	3-19-03	109.72	10	\$278,411.00
Morris, Nelson & Kay	4-30-03	80.60	4	\$234,256.00
Aygarn, Wilmer	6-18-03	41.81	6	\$188,231.00
Sattler, Sharon	6-18-03	29.46	3	\$106,056.00
Eaton, Melvin	8-6-03	101.80	6	\$542,020.00
Bradley, Samuel	1-21-04	47.30	5	\$179,342.00
Cromwell, John G.	1-28-04	21.10	3	\$255,346.00
Bogda, Earl & Karen	4-7-04	36.02	3	\$102,657.00
Morris, James & June	1-12-05	67.81	3	\$311,866.00
Creamer, Craig & Susan	5-11-05	25.17	1	\$70,499.00
Conte, Diane & Ange, Patricia	6-29-05	43.02	3	\$180,684.00
Knight, Barry & Paula	6-29-05	77.57	4	\$236,589.00
Pecsek, Joe	1-25-06	29.83	2	\$167,048.00
Pecsek, Frank	4-19-06	23.98	2	\$134,288.00
Culpeper, Herb and Steinhilber, Robert	2-14-07	71.94	9	\$1,086,294.00
Talley, Craig & Bonnie	2-14-07	25.31	2	\$179,701.00
Morris, Scott	6-20-07	68.34	5	\$632,145.00
Family of Laura Morris	7-18-07	17.06	1	\$189,366.00
Winfree, David & Teresa	3-5-08	85.23	3	\$1,201,743.00
Knight, Barry & Paula	6-11-08	144.15	12	\$874,415.00
Knight, Barry & Paula	10-8-08	175.26	16	\$1,244,346.00
Estes, Sylvia	10-8-08	33.44	4	\$350,451.00
Golesh, Sharon	10-22-08	98.86	9	\$1,343,507.00
Baum, John & Sandra	5-27-09	98.77	8	\$667,246.00
Knight, Barry & Paula	5-27-09	21.74	2	\$121,744.00
Sanford, William & Cheryl	8-12-09	14.39	2	\$159,729.00

ARP Properties Enrolled Since 1997 (continued)

Applicants	Closing Date	Acres Enrolled	Development Rights Acquired	Purchase Price
Brumley, Judith & Ronald Spence	11-10-09	116.54	10	\$1,077,994.00
Bonnie B. Marrow Revocable Trust **	5-5-10	42.28	4	\$321,328.00
Baxter, Truman **	8-18-10	37.94	3	\$288,344.00
Sisters II, LLC **	12-8-10	65.47	4	\$331,714.00
White, Rufus & Barbara	12-8-10	179.43	16	\$1,212,150.00
Whale Wallow, LC	12-15-10	135.95	17	\$1,617,805.00
Whale Wallow, LC	12-15-10	110.97	12	\$1,290,666.00
Cocke, Richard & Clarke, Carol	1-26-11	40.46	4	\$449,106.00
Venable Real Estate, LP	2-23-11	70.49	7	\$535,724.00
Baum, Glenn, Donald & Kenneth	3-8-11	60.47	6	\$374,914.00
Knight, Barry & Paula	3-9-11	38.43	2	\$171,654.00
Styron, James & Phyllis	9-20-11	47.21	5	\$434,332.00
Knight, Barry & Paula	10-10-12	27.56	2	\$184,652.00
Horsley, Donald & Diane	3-20-13	82.66	7	\$484,594.00
Horsley, Donald & Diane **	3-20-13	112.48	9	\$616,594.00
Henley, G.W. & Henley Farm, LP	5-1-13	98.92	4	\$1,107,904.00
Lawrence, Sidney & Karen Burch	7-17-13	23.12	3	\$270,504.00
Betty D. Whitehurst Trust	3-25-15	42.26	4	\$344,842.00
Burroughs Family Revocable Trust **	11-18-15	50.47	2	\$565,264.00
	Totals:	9,316.34	817	\$42,374,198.00

** Indicates easements that reimbursement funding from VDACS was received to help with acquisition costs. To date, \$925,543.66 has been received to help further local dollars for farmland preservation.

Agricultural Reserve Program Map



Current Agricultural Reserve Program Properties are indicated in green.

The property that closed in FY 2016 is indicated in purple.