COMMUNITY OWNERSHIP AND EQUITY:

A Case Study of Little Hogback Community Forest, Monkton, Vermont

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"In rural New England, those who are the most likely to make their living from the forest are the least likely to be able to afford a piece of it." [1]

Forested communities throughout New England are caught in the grip of multiple forces that are at work separating people from the forestland in which they live. Fragmentation of the region's productive forestland, coupled with increasing value (and therefore costs) of forestland is shifting the demographics of landownership towards higher income, non-resident property owners.

New England "has become a laboratory for a series of landscape-sized experiments in building new bridges between forests and their communities."[2] The story of the Little Hogback Community Forest in Monkton, Vermont, is one experiment in slowing forest fragmentation while expanding opportunities for landownership for community members that may not otherwise be able to hold land.

The 115-acre Little Hogback Community Forest is a Vermont limited liability corporation (LLC) with 16 member-shares, eight of which are owned by low-income families. Important elements of the story include:

1. Defining a new vision for a "community forest" by a group of individuals with common interest in and management goals for a piece of forestland;
2. Creating opportunities for landownership by low-income families; and,
3. Integrating forestland and equity within public policies and programs.

The Idea

In October 1997 a forest products company, Champion Lands Company, which owned timberland throughout the northeast, placed 132,000 acres of land in fourteen towns in the Northeast Kingdom of Vermont for sale. Conservation organizations went to work to develop a plan and raise money to conserve the land. One of the institutions they approached for funding was the Vermont Housing and Conservation Board. Deb Brighton, then chair of the Board, was intrigued with the project and hoped that there would be a way to conserve the land while promoting social equity.

By August 1999 the Champion project had become a landmark achievement for conservation in the region. The project had secured conservation for the 132,000 acres. 26,000 acres went into Federal ownership as part of the Silvio Conte Wildlife Refuge, 22,000 acres were held by the state, and conservation easements were established for 84,000 acres held and managed by the Essex Timber Company. While there was no local ownership, by any of the 14 communities of the region or by any low-income community members, the project set wheels in motion. Deb Brighton "began dreaming about another way that land could be perpetually conserved, in meaningfully large parcels, yet in the hands of lower-income community members."[3] Her dream was realized in July 2007 with the creation of the Little Hogback Community Forest, LLC.

Moving from Idea to Project

After the Champion project, Deb Brighton continued to explore her idea, taking advantage of opportunities that allowed her to shape and test the idea. In 2000 she was asked to write a chapter in a book "Natural Assets: Democratizing Environmental Ownership" that "was enough to push me to make the plan a little more solid." The next opportunity came when Vermont Family Forests, the National Wildlife Federation and Vermont Sustainable Jobs Fund asked Deb to write a grant proposal to the Ford Foundation. She agreed to the task and asked if, in the proposal, she could incorporate a project to test her ideas. In the fall of 2001, a grant from the Ford Foundation was received and was used in part to organize and facilitate several meetings.

The first of the meetings was a focus group designed to explore the idea with individuals, to identify issues and concerns, and to get a feel for what level of investment individuals would consider. Organizers contacted different groups involved with land use (conservation, land management, sporting groups) and community action

[1] Excerpt from unpublished piece written by Deb Brighton. May 2008.
[2] Idem
[3] Idem

organizations to solicit names of people who did not, at the time, own land but might be interested in owning land. Twelve people attended the meeting and provided feedback that suggested a need to find a piece of land and determine allowable uses; the need to develop an "operating agreement" to describe how the group would function; and that $3,000 was the maximum price that people could consider for the cost of share. In addition the group confirmed that the Vermont Family Forest was "a respected and trusted organization in Addison County."[4]

The second meeting was organized to bring the Vermont Land Trust and the Vermont Housing and Conservation Board together, along with representatives from other organizations, to "introduce the concept" and to identify potential partnerships and parcels of land. The Nature Conservancy came prepared with maps showing landscapes with high conservation values in an effort to identify a parcel that might have some added value for conservation as well. The Vermont Land Trust had a parcel of land that had been donated and which they were planning to sell subject to conservation easements. The land was located within one of The Nature Conservancy's conservation blocks and it was close to Vermont Family Forests' center of operation. Since Vermont Land Trust owned the land there was time to work details of the project out with the group.[5]

With a piece of land and assurance that there would be a group of people interested in investing, the project was ready to get underway.

Determining the Value

As with any land transaction, it was necessary to establish the value of the land. In this particular case, however, it was important to establish a value that would reflect its intended use and could be divided into a reasonable number of shares at or below $3,000. The parcel had three different values: fair market value $202,400, conserved value (subject to conservation easement) $61,000 and forest value (income producing capacity of the land and timber) $37,300 ('05) and $28,800 ('06).

In Vermont, the market value of conserved land is, in most cases, higher than the forest value. The consequence is that there are buyers who are willing and able to buy conserved land for prices that far exceed its value to produce timber. In order for this new model to work, however, it was necessary to purchase the land at the forest value so that the share price would be based on the revenue generating capacity of the land. Deb Brighton conceived of and designed a mechanism called an "affordability covenant"[6] that would limit the sale and resale value of the land. In combination with the conservation easement, the affordability covenant ensured that the land value would reflect the forest value, and enable the land to produce a modest return from the forest products.

Negotiating the Purchase Price

The Vermont Land Trust was approached with a proposal to purchase the land at the forest value. They declined. They were concerned that selling the land for anything less than the conserved value ($61,000) would put their 501 (c)(3) status in jeopardy with the IRS. As a result the project had to find a way to absorb an additional cost of the affordability covenant ($32,200) - the differential between the conservation value and the forest value. As Deb Brighton recalls:

> *One day I was sitting on the front porch surrounded by buckets of flowers that I was arranging for a wedding when the phone rang. It was...a man I had never met who heard about the project [from a mutual friend], and he said he wanted to provide funding for the missing piece – including loans to lower income members. Angels among the flowers!*[7]

Donald Everett Axinn became a principal sponsor of the project by offering advice, encouragement and donating funds to cover the differential between the conservation

[4] From unpublished piece written by Deb Brighton. May 2008.
[5] Idem
[6] The affordability covenant is based on principles derived from affordable housing models.
[7] Excerpt from unpublished piece written by Deb Brighton. May 2008.

value and the forest value, loan capital to support eight loans to qualified low-income shareholders, and an initial contribution to a revolving loan fund to provide capital for additional loans should any shares become available.

In order for this to work, however, there needed to be some organization that could accept the donation for the land and act as agent for the capital for deferred loans. Vermont Family Forests agreed to act in this capacity but needed to revise its IRS standing. Vermont Family Forests submitted a revised application in the fall of 2004 based on conversations with IRS staff and assurances that there would be no complications in processing the application. Several months later when there had been no action by IRS, it became clear that this was a novel situation and the IRS was not prepared to deal with it. The advice was to establish a new organization to accept donations and loan capital and seek separate 501(c)(3) status for that organization. By the end of 2006, the IRS had approved tax-exempt status for the new organization, Vermont Community Forests. The organization exists to accept gifts and donations, to hold rights in land without paying taxes, provide staff and coordination, to offer loans and to sell land subject to easements.

Designing the Structure

The project was structured around two organizing principles.

1. Some entity would purchase a parcel of land that had value and was important to the community; and would divide rights to the land into several bundles: the rights to use the land, development rights, management rights, the rights to profit from careful management of the land, and the rights to repurchase shares. The "rights" to the land were to be distributed as follows:
    - A 16-member LLC would purchase the rights to manage and use the land;
    - The Vermont Land Trust would hold the development rights (conservation easement); and,
    - Vermont Community Forests would be given the rights (transferred to them through the affordability covenant) to repurchase the shares if they should come up for sale.
2. Community ownership would include members who could not otherwise afford to purchase land.
3. The investment would be modeled after a savings account, though in this case, the shares were priced so that the investment would yield a return, but over time, equivalent to that of a bank account.

During the initial focus group, there was a significant amount of feedback gathered on the administration and management of the project. According to Deb Brighton:

> *Initially and idealistically we envisioned giving a group of enthusiastic strangers complete control over the organization of their group and their land. But they told us quite clearly that although they were enthusiastic they did not need another frustrating exercise in democracy in their lives. They said that they would like to be presented with a fully defined product – complete with a specifications sheet – explaining what they would buy. They would like to know at the outset, for example, if deer hunting would be allowed or if ATV's would not be allowed before they decided to even find out more information. They were absolutely not interested in fighting tree huggers about whether or not timber would be cut; they wanted to be sure that each member of the group came with the understanding that this was about community-based forestry and not Bambi. They also said that they would like Vermont Family Forests to manage both the land, and the LLC, for at least the first two years. They wanted to make sure that the land was carefully managed; they wanted to make sure their rights would be protected. And they didn't want to feel they had to spend a lot of time haggling about this. Vermont Family Forests developed a management plan, an operating agreement for the LLC, and a list of accepted and prohibited uses.*[8]

In order to achieve the goal of providing access to forestland ownership for low- modest income families, half of the shares would be restricted to households with incomes below $89,400 (150% of the county median). Deferred loans for half the share price would be made available to these households so that income-eligible households could purchase a share for half of the full price. "The member would have full-share rights for voting, firewood and revenue distributions. No payments would be due on the loan until the member decided to sell or transfer the share in the future. In order to transfer, the member would need to repay Vermont Family Forests for half of the share at that time."[9]

The finances of the LLC include the cost of managing the land and revenue from timber harvests. Rather than allocate the costs and distribute revenue from specific harvests on an individual basis a Management Reserve Account was established and funded initially by a portion of the income from the sale of shares ($8,100) and an initial harvest ($16,600). The Management Account is used to pay taxes and management expenses so it would be drawn down between harvests and replenished at each harvest. Management costs were calculated to be $1,775 annually and covered property taxes, insurance, management, certification, road maintenance, a forest management plan, and boundary work.

Calculating the Share Price

Through the focus groups, it was determined that $3,000 was the outside price people were willing to pay. An initial deposit into the Management Reserve Fund was added to the purchase price of the land (forest value) to calculate the total

[8] Excerpt from unpublished piece written by Deb Brighton. May 2008.
[9] Excerpt from unpublished piece written by Deb Brighton. May 2008.

cost of the project and the number of shares. That number, when divided by $3,000 indicated there should be 15 plus a fraction of shares. It was agreed that the number was a "manageable group size" and was a good match for the land – the decision was made to have 16 shares at $2,850 each. Qualified low-modest income members could purchase a share for an initial payment of $1,425 and Vermont Family Forests would loan the remaining $1,425.

Engaging Participants

Before going "public" the project organizers developed a "People's Prospectus," drafted legal documents (conservation easement and LLC) and an operating agreement. The People's Prospectus laid out the goals of the project which were:

- To protect forest health in perpetuity; and
- To offer opportunities to community members who may not be able to buy land otherwise to do two things simultaneously: to hold, steward and enjoy land and to make a modest return on their investment through sustainable community-based forestry.

Public meetings were then organized to describe the idea and expand awareness of and interest in the project. An announcement read:

You may have noticed that it's hard to buy forestland in Addison County if you are hoping to pay off your investment through selling timber. Vermont Family Forests, in collaboration with the Vermont Land Trust and with the generous support of a sponsor, is offering the Little Hogback Community Forest, LLC to Addison County residents who would like to buy and steward forestland, and receive a return on their investment.

In January of 2005, twenty people attended the first public meeting about the project where associates from Vermont Family Forests showed a map and slide show of the property and described its ecological features; discussed the mission of Vermont Family Forests and its role in the project; walked participants through the People's Prospectus and discussed the organizational and financial features of the project and the LLC.

Subsequently, two other public meetings and field trips on the property were held to expand awareness of the project, identify interested individuals, and raise and discuss issues related to the management of the land and involvement in the project.

In all, over sixty people attended the public meetings and field trips. There was significant interest in the project from the earliest stages and there was little difficulty in attracting interest from many individuals who wanted to purchase a share. For some it was simply a matter of knowing about Vermont Family Forests, or knowing its director, David Brynn. Many suggested that they "trusted" the organization and the people and were willing to "jump in" based on those associations. For some it was a "perfect fit" with many overlapping interests: forestry, wildlife conservation, the chance to get firewood, and interest in protecting the region's forests from further development or fragmentation. For others the "community-building" aspect was of interest. And many conveyed the sense that they wanted to invest in the "idea" and saw this project as a "pioneering project," a potential model and "wanted to be part of something bigger."[10]

Interest in the eight full-priced shares was secured quickly. Identifying and attracting individuals who would qualify for the eight shares allocated to low-modest income shareholders proved to be more of a challenge. Deb Brighton reflected that:

The lower-income slots were definitely the harder slots to fill. When we followed up with certain key residents to find out why they had not responded or how the project could be modified to meet their needs, we found that they had seen a poster or read a newspaper article about the venture, but they determined that they could never own land so they hadn't even attended meetings.[11]

Creating the "Community"

Ultimately sixteen shareholders most of whom had never met, came together as common owners in a single parcel of land. From the outset no distinction was made between those shareholders that paid the full share price and those that qualified for the half-share price. To this day, unless an individual has chosen to reveal it, the distribution between full and subsidized shares is not known.

Some of the shareholders live in Monkton or in surrounding communities. Others live at a distance so Vermont Family Forests encouraged and facilitated opportunities for shareholders to get to know each other. In an early email, shareholders were encouraged to introduce themselves to one another: "Could you send a brief email to the others in this group with vital information such as who is in your household; why you are doing this; whether you are especially interested in birds or mushrooms or snow shoes or firewood or salamanders; or anything that you feel might help the others get a sense of who is in this great group. You are teachers and a preacher, students and a scholar, musicians and a pilot, parents and children, retirees and babies not yet born. The common thread is that you are all pioneers undertaking this new venture in community and forest…" And they did. Vibrant messages were exchanged describing commitments to community and the land, thoughtful offerings about family and interests, hopes for the project and what they might offer the group.

Informal field trips to the site were organized, formal meetings are held on a quarterly basis and committees set

[10] From e-mail exchanges and telephone interviews with shareholders.
[11] Excerpt from unpublished piece written by Deb Brighton. May 2008.

up to address particular aspects of owning and managing the forest, including a firewood committee, trails committee and communications committee. Throughout all, there is a clear signal that the group is working well together, that there is significant trust, good will and an interest in learning from each other among the shareholders.

Managing the Little Hogback Community Forest, LLC

Feedback from the early focus group suggested that there was no interest in an owner-managed LLC. Vermont Family Forests was selected to manage the LLC for the first two years. After two years, the LLC will hold a vote that will require a 2/3 majority to convert to an owner-managed LLC. Vermont Family Forests was asked to develop a long-term management plan that would be jointly approved by the LLC, the Vermont Land Trust (holder of the conservation easement) and Vermont Family Forests.

The stated goals of the long-term management plan are "to protect forest health" and to grow and harvest trees to provide returns to the investors. The forest will be managed to maintain un-even aged stands with harvests occurring in 2006 and then every ten years thereafter. Forest management practices would be according to Vermont Family Forests' management guidelines and principles that include FSC certification.

While the by-laws call for a majority vote as the basis of decision making for the LLC, based on the suggestion and experience of several members, the group has adopted a consensus approach to decision-making. Several articles were circulated about the consensus approach and there was a general willingness to adopt this process. The shareholders are currently attempting to reach consensus on a potentially contentious issue related to dogs. Some members want to allow dogs as they use the property for recreation. Others, concerned about the impact of dogs on other wildlife species, would like to prohibit dogs from the property. While no consensus has emerged, there has been a lively exchange of email and clearly an interest in working through the issue based on a commitment to the process of consensus.

Benefits

Benefits to the members include access for hiking, skiing, no-trace camping, bird watching, picnicking and aesthetic enjoyment of the landscape and views. As a result of the initial focus groups it was decided to allow deer hunting (with permission from LHCFLLC) during rifle season, and to prohibit access to ATVs. Members are also able to cut firewood. Members are allocated a lot with trees marked by the forester. A small fee is charged to those members in order to cover the marking costs.

The Little Hogback Community Forest, LLC was designed as well to provide financial returns on the investment to shareholders through the harvesting of timber. Financial returns on the investment to the shareholders were calculated to provide an annual 3.75% return similar to that of a bank account that is based on projected management costs ($1,775 annually), increase in forest (stumpage) value, and returns from the management account.

Last, but not least, the benefits of the "community" are increasingly apparent. One only needs to talk to members of the firewood committee to be impressed by the significant mutual assistance from sharing equipment, to cutting, transporting and stacking wood for others. Other benefits are less tangible but appreciated. As one shareholder commented, there is "a lot of sharing wealth, knowledge and opportunity"[12] within the Little Hogback Community Forest.

Significant Issues Raised During Project Development

Land Values

One of the most challenging aspects of the model was, and clearly remains for any efforts to replicate it, that the development and conservation values of forestland in the region are significantly higher than the forest value. Finding a piece of land and a group of willing participants is less the challenge than creating a financing package that can result in affordable shares and returns on the investment.

Critical components of this facet of the project include identifying and working closely with a partner that can provide access to or information about potential land parcels, finding philanthropic capital for loans and capital to bridge any gaps in appraisals or valuation.

Participation

While there were more than enough individuals interested in the project, half of the shares had been allocated and limited to individuals whose family incomes were below the county median. In the end it proved to be the most difficult and unanticipated challenge to secure investors for these eight shares. More often than not, individuals who would have qualified for the low-income shares did not come to the public meetings or consider purchasing a share simply because it was not in their thinking that they could own land. "We realized that we needed to be more thoughtful

[12] From telephone interview with shareholder. July 2008.

anticipating and understanding invisible barriers and encouraging potentially eligible people to imagine themselves as landholders."[13]

Public Policy[14]

Emerging from the process of designing the project was the realization that "there is little public recognition, either through policies or programs, of the public benefit of financially viable ownership and stewardship of working forestland by community members."

Existing public programs such as the acquisition of development rights and the use value appraisal for property tax purposes work together to reduce the purchase price of land and the carrying cost to values consistent with the income potential of the land, they do not remove "bragging rights" or the value of providing privacy to an estate. As a result, the value of conserved land now far exceeds its value for production. In addition, the public value of having community members of limited means own conserved forestland needs to be recognized. Public support has gone into the Individual Development Accounts that provided assets for lower-income households. The Assets for Independence Act (PL 105-285) made the following findings:

> *Economic well-being does not come solely from income, spending, and consumption, but also requires saving, investment, and accumulation of assets because assets can improve economic independence and stability, connect individuals with a viable and hopeful future, stimulate development of human and other capital, and enhance the welfare of offspring.*

Although this Act clarifies that providing assets to lower-income people is a legitimate public benefit, the individual development accounts authorized under this act certainly did not include forestland.

Public programs for forestlands rarely have social equity goals. In a comprehensive study, researchers analyzed the full range of government interventions in forestry in the United States and concluded that:

> *The distributive effects are the opposite of what the U.S. society generally prefers. Wealthier landowners, higher-wage employees, and Canadian producers gain from these interventions. Small private producers, lower-wage employees, U.S. consumers, and the public treasury bear the burdens of these interventions.*

At a minimum, some flexibility within existing policies and programs might have helped to avoid the delays in the project that resulted from an unresponsive IRS. Better, however, will be a full-fledged effort to embrace forestland as a recognized "asset" under the Individual Development Accounts, and an initiative to integrate equity goals within public programs related to forests.

Critical Junctures in Project

While every step seemed to blaze a new section of trail for this approach, there were several important partnerships, interventions and milestones that allowed the project to proceed.

Attracting Resources and Capacity

The initial human capital pledged to this effort came in the form of Deb Brighton's idea and her efforts to put shape and form to it. David Brynn from the Vermont Family Forests and Gil Livingston from Vermont Land Trust were also instrumental in bringing long-time experience and interest in linking so many of the components of this project: economics, forestry, community, land ownership, and equity.

Vermont Family Forests and Vermont Land Trust provided critical institutional support and capacity. First and foremost, Vermont Family Forests proved to be an "incubator" for Deb to work out the details of her idea on a specific project. Vermont Land Trust, in this case, had a viable parcel of land, but at a minimum would provide access to potential parcels and landowners. Many attributed their interest in and willingness to participate in the project to the reputation of Vermont Family Forests, to their personal relationship and/or "trust" in David Brynn and suggested that a project like LHCF needs "flexible institutions… a willingness to work 'outside the box' or beyond the mission."[15]

The ability to attract timely, flexible and sufficient financial resources is central to the success of this kind of project. The Ford Foundation grant to Vermont Family Forests provided the R&D money to support Deb's work to move from an idea to a concrete project. It provided funds to conduct focus groups, facilitate meetings, to develop the structural (legal and financial) framework for the project. The generous contribution by Mr. Axinn to cover the cost differential in the land and capital to support deferred loans was serendipitous, but clearly demonstrated both the value and need for flexible philanthropic capital that can serve multiple purposes.

Securing a Piece of Land

The availability of a parcel of land, owned already by a conservation partner and with salient characteristics (productive forestland, value to community, conservation value within a larger landscape) integral to the broader concept of community forests, provided the organizers with a tangible piece of property on which to work through critical issues, to engage potential participants, and to demonstrate how the model would work.

Perhaps of greater importance and value within the

[13] Excerpt from unpublished piece written by Deb Brighton. May 2008.
[14] The analysis in this section is attributed to Deb Brighton.
[15] From telephone interviews with shareholders. July 2008.

context of community forests in general is the institutional capacity to buy, own, or hold a parcel of land until the community pieces are put together. In this case, the Vermont Land Trust already owned the land and could hold it until the Little Hogback Community Forest structure had been developed and put in place.

Receiving IRS Approval

Finally, the approval by the IRS was critical to being able to accept philanthropic capital to ensure that the land value could be brought down to an affordable cost, to provide loans for qualified low-modest income shareholders and to provide the institutional capacity to hold rights in land without having to pay taxes, and to sell land subject to easements.

Conclusion

This model has particular relevance where land values are high and prospects for participation by low-modest income community members are low, or where there is a community-driven project but little chance of financing acquisition through local bonding or philanthropic support alone. The Vermont Land Trust has expressed considerable interest in replication. "We are smitten with the model…[and] the idea that we can combine [the conservation of] working forests to community building and to building equity for low-income families." At the same time, questions have emerged about scale and parcel size and how the model would play out within different communities in different regions.[16]

Under any scenario, however, there are several critical factors that may be necessary in order to successfully achieve the goals of a community forest project based on the Little Hogback Community Forest model. The collective capacity of the shareholders is strongest if there are complimentary skills among the members. In this case having individuals that bring capacity in finances, facilitation of meetings, forestry, wildlife, and management has proven to be valuable. In addition, there are significant requirements in the early stages for an individual and institutional capacity to facilitate the organizational and subscription process for shareholders.

Community forest projects throughout the region have demonstrated the importance and value of conservation partners (land trusts, non-government organizations, etc.). They can provide the institutional support and capacity necessary to facilitate community processes, they have access to knowledge about relevant parcels of land and familiarity with land transactions, and they have access to donors.

Public and private funding will be particularly important for successful replication of this model. Grants will be needed to support project development, as well as for organization, coordination and facilitation of community processes. Flexible capital from both public programs and private philanthropy will be needed to support revolving loan funds, capital reserves or other mechanisms to cover gaps in land transactions that are specific and directly related to social/community development values in community forest projects. Capital is also needed that allows entry into a project by low-income sectors of a community.

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[16] Telephone interview with Gil Livingston, President, Vermont Land Trust. July 2008.