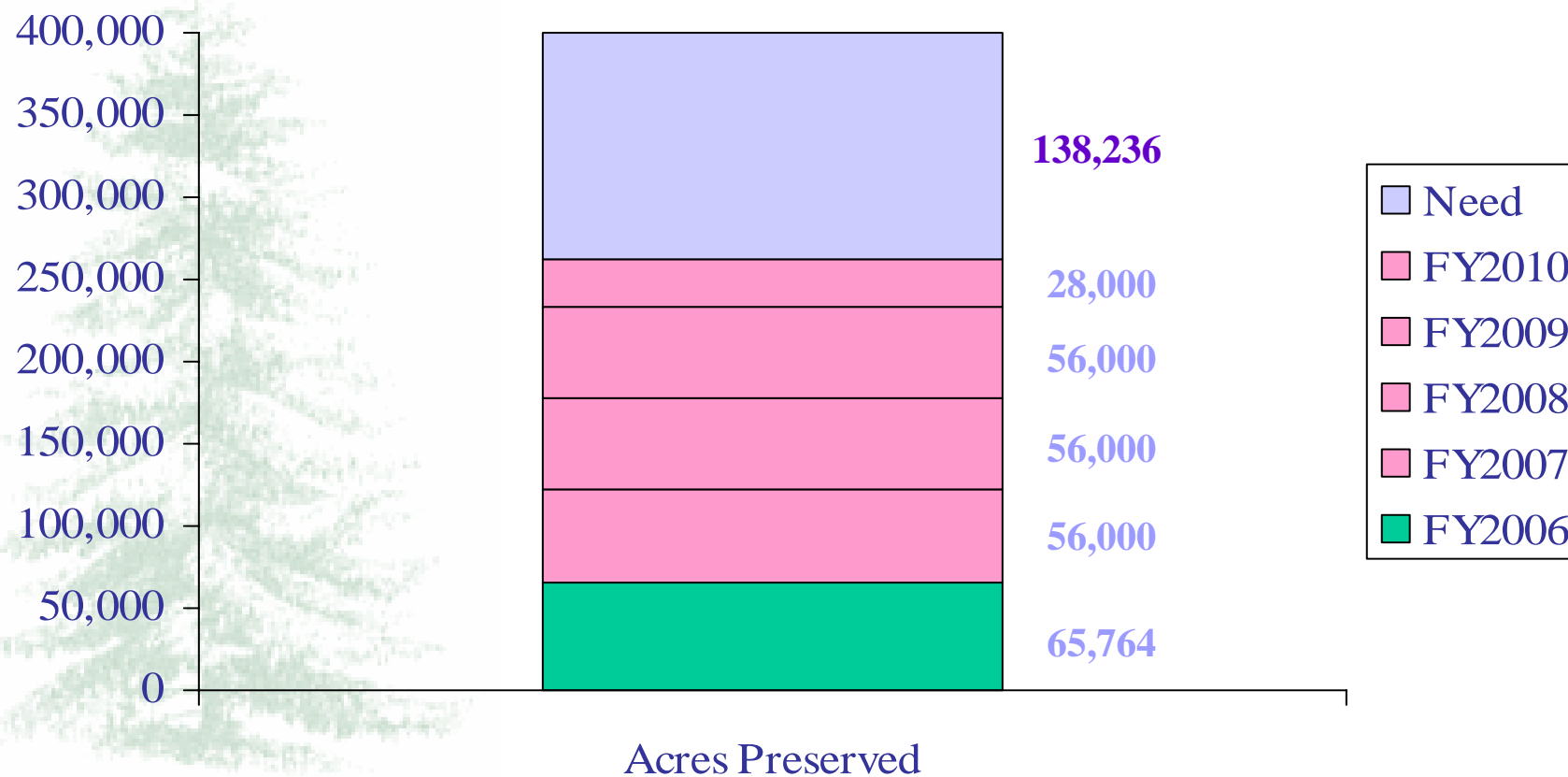




Financing Land Preservation in the Commonwealth of Virginia

November 28, 2006

Scope of Preservation Need




Pace of Acquisitions



	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>Total Acres</u>
Fee-Simple	11,100	11,100	5,500	27,700
Local Easements	6,300	11,600	16,600	34,500
Other Easements	30,400	30,400	15,300	76,100
Total Acres	47,800	53,100	37,400	138,200

State Share of Acquisition Cost



	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>State Share</u>
Fee-Simple @ 75%	\$49,765	\$52,253	\$27,433	\$129,451
Local Easements @ 50%	8,505	16,372	24,781	49,658
Other Easements @ 50%	41,087	43,142	22,650	106,879
State Share	99,357	111,767	74,864	285,988

Cost of State Share



Debt
Service

FY2008

\$1,939

FY2009

7,935

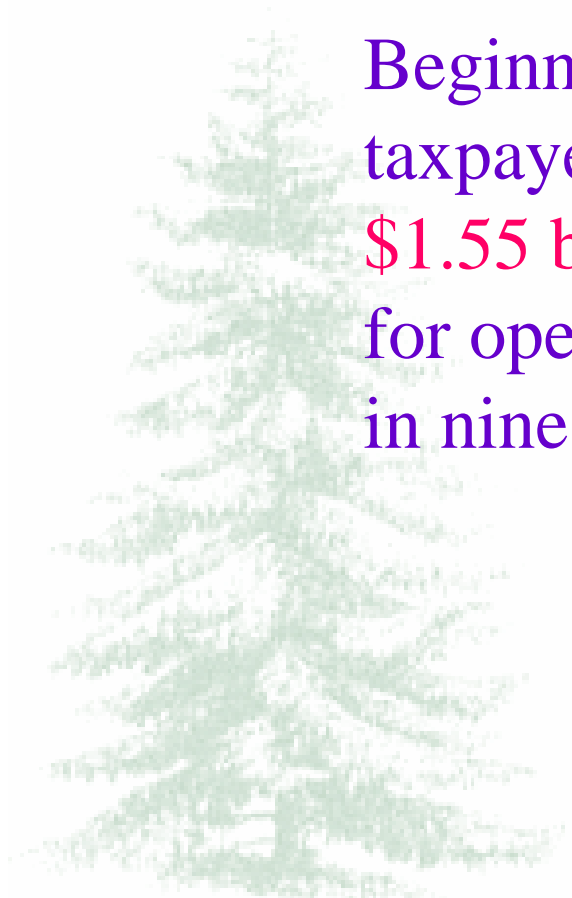
FY2010

13,680

FY2011
-FY2038

16,467

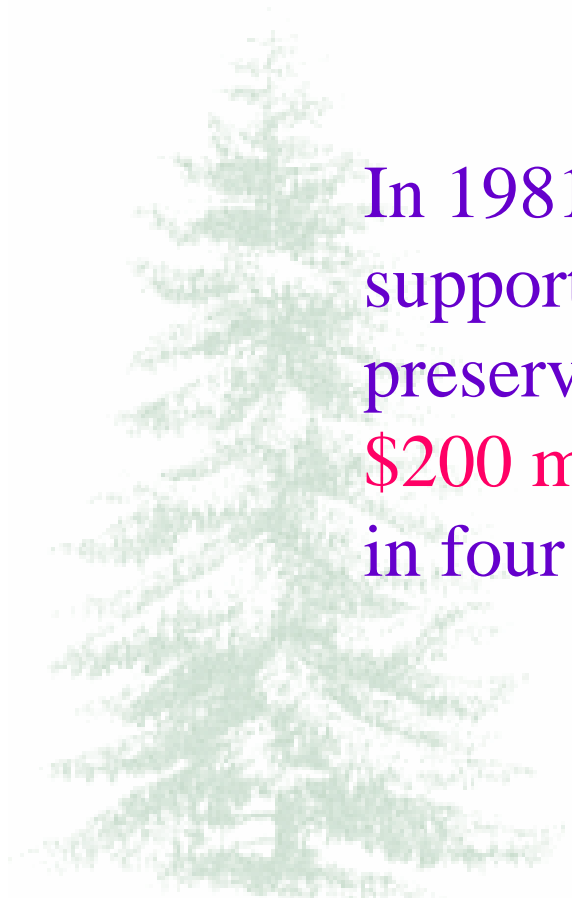
New Jersey's Open Space Bonds



Beginning in 1961, New Jersey taxpayers supported **\$1.55 billion** of bonds for open space in nine referenda.

1961	\$60	million
1971	80	million
1974	200	million
1978	200	million
1983	135	million
1987	75	million
1989	250	million
1992	270	million
1995	280	million

New Jersey's Farmland Bonds

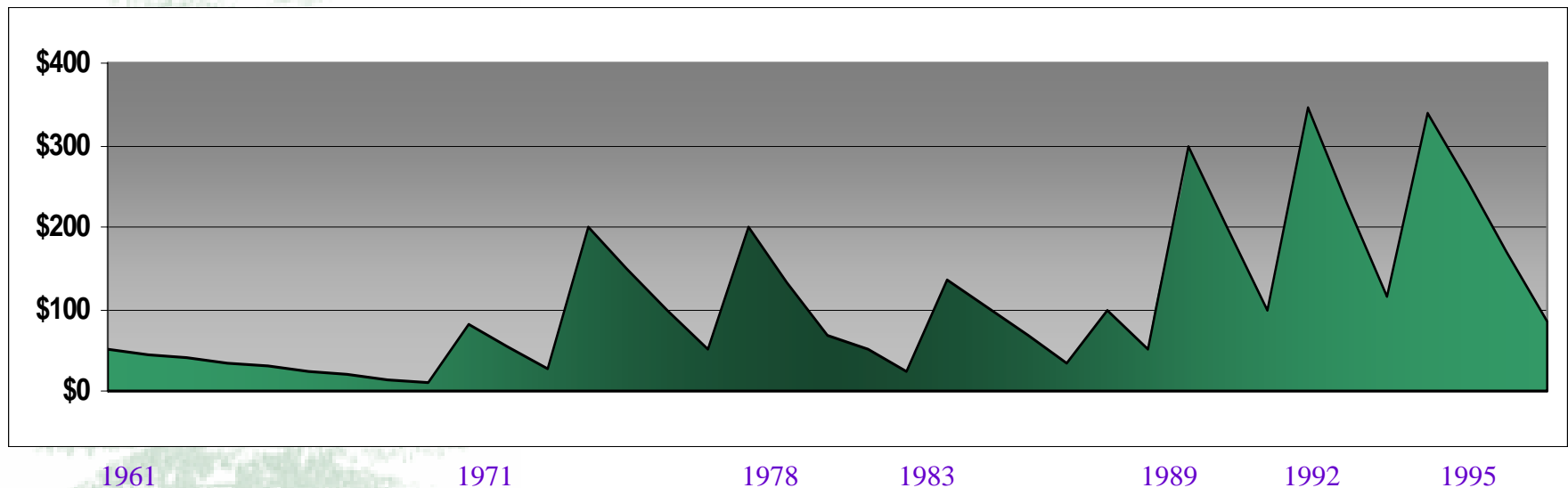


In 1981, taxpayers expanded support to farmland preservation:
\$200 million of bonds in four referenda.

1981	\$50 million
1989	50 million
1992	50 million
1995	50 million

Impact: Uneven Funding

New Jersey preservation programs were bouncing from referendum to referendum, with inconsistent levels of funding.



Average Annual Available Funds 1961-1998

Effect on Programs



- **Hesitation** to dedicate funds and invest in staff
- **Uncertainty** by non-profits to expand and pursue multiple projects
- **Delays** for landowners seeking to sell

\$98 Million Annual Sales Tax Dedication



On November 3, 1998, voters approved a constitutional amendment to dedicate **\$98 million annually** from 1999 through 2029 for a 10-year preservation program.

Garden State Preservation Trust



- State agency funding 10-year program
- \$98 million in sales taxes annually
- \$1.15 billion in AAA-rated financing
- \$2 billion total funding over 10 years
- 60% for open space, 40% for farmland

Lessons from GSPT

- **Revenue source:** Dedicate funds large and growing source
- **Upfront borrowing:** Lock in interest rates, force state agencies to spend
- **Prime pump:** Assured state match encourages local, non-profit funding



Tools in Local Preservation Toolbox



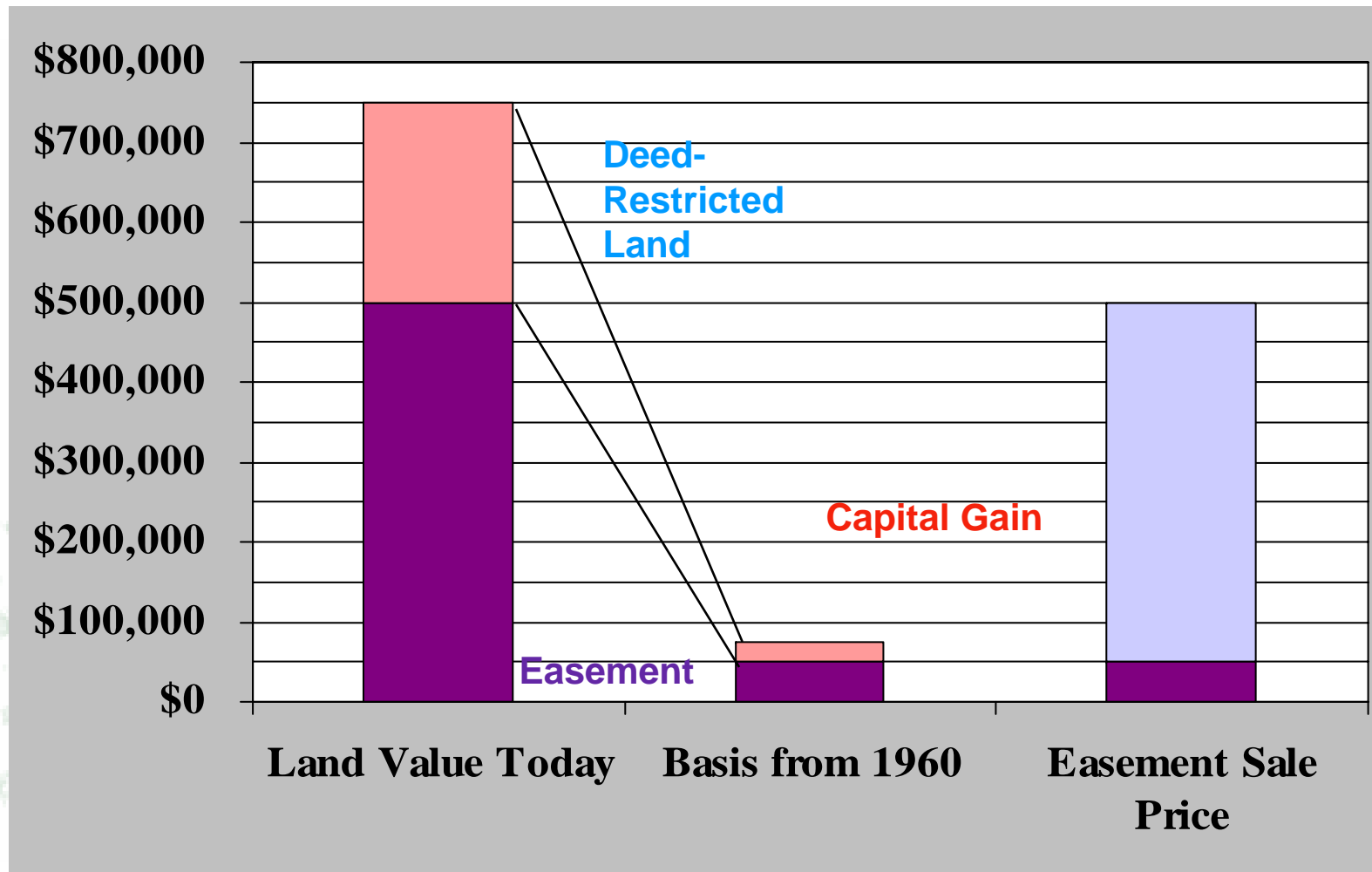
- **Bonds or loans:**
Use proceeds to pay cash at closing
- **Installment purchase agreements:**
Pay purchase price and interest over defined term
- **Pensions:** Pay after retirement, with value increasing until then

State Revolving Fund Loans

- **Va. Clean Water Revolving Loan Fund:** Funded with EPA grants for wastewater treatment
- **Land Conservation Loan Program (2003):** Acquire land/easements that prevent pollution of state waters and assure availability for agricultural or open-space use
- **20-year loans at below-market rates**
- **Not yet used for PDR programs**



Problem for Sellers: Capital Gain



Bargain Sales and the New Tax Law

- **New tax law:** “Qualified farmers” using bargain sales deduct 100% from income for up to 16 years
- **Qualified farmer:** >50% of income from farming in year of bargain sale
- **Unqualified farmer:** Bargain sale for cash adds capital gain to income in year of sale
- **1031 exchange or IPA:** Shift gain out of year of bargain sale

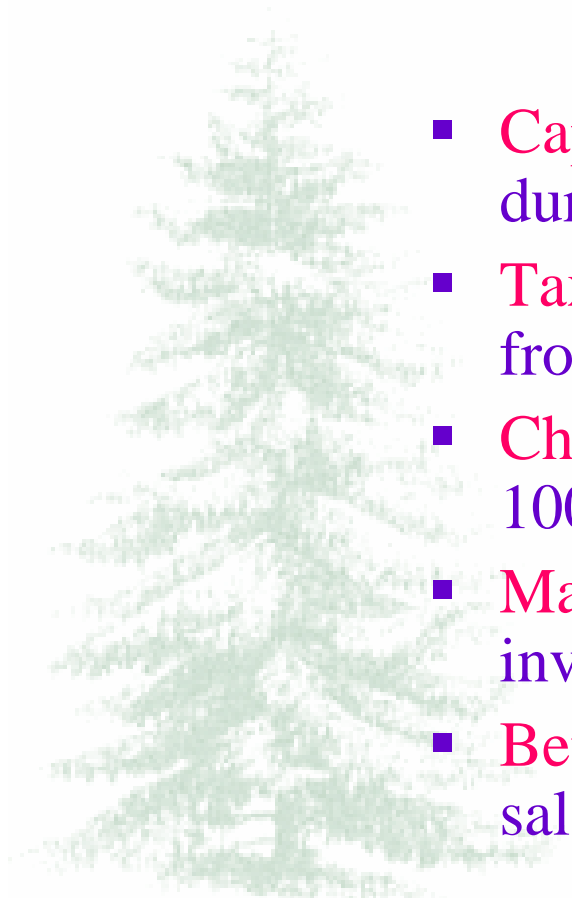


Structure of IPA Transaction

- **IPA** (contract) between buyer and landowner to buy easement or land.
- Buyer promises to pay purchase price at end of IPA **term of up to 30 years**.
- Buyer also promises to pay **semi-annual tax-exempt interest** during term of IPA.



Benefits to Seller from IPA

- 
- **Capital gains tax deferral:** May not owe taxes during his or her lifetime
 - **Tax-exempt interest** on full sale price, exempt from federal and state income taxes
 - **Charitable contribution:** Deduct discount from 100% of income for up to 16 years
 - **Marketability:** Landowner can sell IPA to bond investors for cash prior to maturity
 - **Better estate planning:** Heirs can use cash from sale to pay estate tax

Precedent: Virginia Beach



- Dedicated 1½¢ of property taxes in 1996 to purchasing development rights on farmland
- Leveraged funds using 25-year installment purchase agreements with sellers
- IPAs allowed sellers to defer capital gains, receive tax-exempt income
- Easements on 123 parcels protecting 7,100 acres at cost of \$23 million

Pensions for Preservation (P4P)

- **Value set at closing:** Based on appraisal or point system
- **Payments deferred:** Seller establishes when payments will begin, how long they will continue, rights of survivors
- **Funding established:** Actuary determines annual funding based on expected payouts
- **Section 115 trust:** Buyer funds trust, deposits invested until needed

