

# 6 Funding Strategies and Sources

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## INTRODUCTION

Achieving the goals and objectives for the preservation of farmland and open space in Washington County will require a coordinated effort to fund and implement programs by government agencies, private organizations and individuals. This chapter describes various approaches to financing farmland and open space preservation efforts and identifies potential funding sources. This chapter does not estimate the funding necessary to fully execute any farmland and/or open space program, nor does it attempt to predict the amount of funding that might be generated by the various financing strategies. Furthermore, this chapter is not considered an all-inclusive listing of financial strategies and sources for farmland and open space preservation.

## FINANCING STRATEGIES

Preserving farmland and open space requires adequate and continuous funding. An effective program should combine several funding strategies that may include federal, state, local, and private money to successfully preserve farmland and open space in a community. The following listing describes different funding strategies that may be considered for funding farmland and/or open space preservation programs.

### Bonds

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General obligation bonds are essentially IOUs issued by cities, states and other public entities to finance large public projects. The issuer agrees to repay the amount borrowed plus interest over a specified term – typically 20 to 30 years<sup>1</sup>. General obligation bonds may require approval by the legislature, voters or both. Through bonding, large amounts of money can become available within a relatively short period of time to implement a preservation program. Bonds increase a government's debt and reduces its debt capacity, which may conflict with other capital needs.

An example of using bonds to preserve open space is in Wake County, North Carolina. The County used a combination of bonds, pay as you go, and grant funds to address open space needs. In 2000, Wake County issued \$15 million in bonds for open space preservation. The County leveraged these bond funds to apply for approximately \$13 million in grants. Since then, Wake County spent \$11.6 million to purchase approximately 1,800 acres of open space valued at \$26 million. In 2004, the County bonded \$26 million and is continuing to address its open space needs<sup>2</sup>.

### General Fund Appropriation (Tax Levy)

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Money collected from property taxes, assessments charged to real property owners based on a percentage of the assessed property value, are allocated for government operations and outstanding debt. A local government may allocate tax levy dollars for farmland and open space preservation purposes. A benefit of this strategy in comparison with bonding is that preserved farmland and open space is paid in its entirety, eliminating interest costs. In addition, the tax levy can provide a steady stream of financing

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<sup>1</sup> *Purchase of Agricultural Easements: Sources of Funding*, American Farmland Trust

<sup>2</sup> *Wake County Growth Management Strategy Implementation Summary*, Wake County

while broadly distributing the tax burden. Limitations to this strategy may include political opposition to the use of the tax levy for preservation purposes, money allotted may be too little to successfully implement a preservation program, and competition with other government programs for general fund dollars.

## **Revolving Loan Fund**

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Initially funded with federal and state money, and continued with funds generated by repayment of earlier loans, state revolving funds may provide low-interest loans for local governments to fund farmland and/or open space preservation programs. This type of strategy creates a pool of capital reserved for the preservation and acquisition of farmland and open space land. This type of funding can be used for acquiring lands with eventual resale to conservation minded buyers, which will in turn, replenish the revolving loan funds. A benefit of the revolving fund is that it can be used to quickly respond and acquire threatened natural resource or farmland properties. There may be instances when the fund cannot cover the total acquisition costs to the property owner. Property owners would be encouraged to donate the remaining value of the property or receive payments over time through a lease purchase agreement. Since this type of funding places emphasis on revenue generation from projects, it may have limited use for protecting open space<sup>3</sup>. This type of funding is currently unavailable in Wisconsin.

## **Sales Tax**

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Sales tax is the assessments charged on the retail price of purchased merchandise. A dedicated percentage of revenue generated by a sales tax can be used to fund a farmland and/or open space preservation program. This funding strategy can provide a steady stream of funding for a preservation program, but objections to a sales tax generally revolves around the increased financial impact on lower income households and the reduction of funds in an economic slowdown.

## **Impact Fees**

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Impact fees, established in 1993 (Section 66.0617, Wis. Stats.), are fees typically collected from developers or property owners at the time a building permit is issued to pay for capital improvements and land acquisition that provides capacity to serve new growth. The intent of these fees is to avoid burdening existing customers with the costs of providing capacity to serve new development and passing the costs to new property owners. Communities that institute impact fees must develop a sound financial model that enables policy makers to justify fee levels for different user groups, and to ensure that revenues generated meet, but do not exceed, the needs of development<sup>4</sup>.

## **Charitable Donations, Foundations, Land Trusts**

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Privately funded programs may exist in a community providing grant dollars for farmland and/or open space preservation efforts.

## **State & Federal Grants**

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Federal and State programs are available to provide grants to support local government or non-profit preservation programs. However, funding may require matching funds and in-kind services for applicants to be eligible. See the Funding Sources section for examples.

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<sup>3</sup> *The Preservation Toolbox: Tools and Techniques for Preserving Open Space*, Town of Cary, North Carolina

<sup>4</sup> *Appendix D: Funding and Finance Strategy*, Wake County Open Space Plan

## FISCAL IMPACTS

Since preservation programs require a steady funding stream, communities need to consider the fiscal impacts of implementing a farmland and/or open space preservation program. By having a steady source of funding, a community can qualify for grant dollars to supplement the funding for preservation programs. Fiscal impacts of funding a preservation program affect a community in a multitude of ways, such as taxation, changes in property values, and change in tax base.

Taxation, such as sales or property taxes, provide communities with a steady stream of funds to implement a preservation program, although tax increases are often unpopular with residents. This steady funding source provides a community the ability to seek grant dollars to support a preservation program. Taxation can also impact a community's economic development efforts by increasing the cost of doing business in a community. Furthermore, substantial increases in taxes, such as property tax, can negatively impact a resident's ability to afford owning property in their community.

Another consideration is the fiscal impact of purchasing property within a community and removing property from the tax rolls for open space preservation. Agricultural and open space land purchased for preservation has a minimal fiscal impact on the tax roll since the land is assessed for its land use value and not its market value, therefore representing a small portion of a community's tax base.

## FUNDING SOURCES

A successful funding strategy needs to account for the administration of a plan, the possible acquisition of parcels or easements, and the potential management and maintenance of properties in a farmland and/or open space preservation program. Therefore, a community will need to fully evaluate its options and develop a funding strategy that can maximize local resources and leverage outside funding to sustain a farmland and/or open space preservation program. The following listing briefly describes potential outside funding sources at the federal and state level.

### **Farm and Ranch Lands Protection Program (FRPP)**

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The FRPP provides Federal matching funds to help purchase development rights to keep productive farm and ranch lands in agricultural uses. Working through existing programs, USDA partners with State, tribal, or local governments and non-governmental organizations to acquire conservation easements or other interests in land from landowners. USDA provides up to 50 percent of the fair market easement value of the conservation easement. To qualify, farmland must meet the following criteria:

- Be part of a pending offer from a State, tribe, or local farmland protection program
- Be privately owned
- Have a conservation plan for highly erodible land
- Be large enough to sustain agricultural production
- Be accessible to markets for what the land produces
- Have adequate infrastructure and agricultural support services
- Have surrounding parcels of land that can support long-term agricultural production

Depending on funding availability, proposals must be submitted by the eligible entities to the appropriate NRCS State Office during the application window<sup>5</sup>.

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<sup>5</sup> Natural Resources Conservation Service

## **The Land and Water Conservation Fund (LWCF)**

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The goal of this program is to encourage nationwide creation and development of public outdoor recreational opportunities. This program is administered by the Wisconsin Department of Natural Resources (WDNR) funding both state and local outdoor recreation activities up to 50 percent of a project cost. Eligible projects include land acquisition, development of recreational facilities, and non-nature based outdoor recreation elements<sup>6</sup>. The application deadline is May 1 of each year.

## **Lake Protection and Classification Grant**

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The goal of this program is to assist lake communities and local governments to protect and restore lakes and their ecosystems. This program funds activities up to 75 percent of their project cost and is administered by the Department of Natural Resources. Eligible projects for this grant include purchase of property or a conservation easement that improves or protects a lake ecosystem, restoration of shoreland or wetlands, development of local regulations or ordinances to protect lakes, lake classification projects, and lake management plan implementation<sup>7</sup>. The application deadline is May 1 of each year.

## **Federal Aid in Wildlife Restoration Act (Pittman-Robertson Act)**

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This program provides funding for the selection, restoration, rehabilitation, and improvement of wildlife habitat, and wildlife management research. Funds from an 11 percent excise tax on sporting arms and ammunition are appropriated to the Secretary of the Interior and apportioned to states on a formula basis for covering costs (up to 75 percent) of approved projects. The program is cost-reimbursement in nature, requiring states to apply for reimbursement of up to 75 percent of project expenses. At least 25 percent of the project costs must be provided by the state and originate from non-federal sources<sup>8</sup>.

## **Transportation Equity Act for the 21st Century Funding Programs**

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While generally a transportation-based program, the Transportation Equity Act for the 21st Century (TEA-21) funds programs to protect the environment. Through increased funding to the Surface Transportation Program (STP) and the National Highway System (NHS), TEA-21 allows for more environmental projects. States may spend up to 20 percent of their STP dollars (used for transportation facility reconstruction, rehabilitation, resurfacing, or restoration projects) for environmental restoration and pollution abatement projects. Additionally, each state sets aside 10 percent of STP funds for transportation enhancement projects, which can include acquisition of conservation and scenic easements, wetland mitigation, and pollution abatement, as well as scenic beautification, pedestrian and bicycle trails, archaeological planning, and historic preservation<sup>9</sup>.

## **Wetlands Reserve Program**

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The Wetlands Reserve Program is administered through the U.S. Department of Agriculture's Natural Resources Conservation Service. This program provides landowners with financial incentives to restore and protect wetlands in exchange for retiring marginal agricultural land. Landowners may sell a permanent or a 30-year conservation easement, or they may enter into a cost-share restoration agreement for a minimum of 10-years. Participating landowners voluntarily limit future use of the land. They continue to own and control access to the land, and they may lease the land for recreational activities.

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<sup>6</sup> 2005 Grant Guidelines and Application, Wisconsin Department of Natural Resources

<sup>7</sup> *Lake Protection and Classification Grants*, Wisconsin Lakes Partnership

<sup>8</sup> U.S. Fish and Wildlife Service

<sup>9</sup> U.S. Department of Transportation

The amount of funding available in a given fiscal year depends on the amount of acres Congress permits to be enrolled in the program, and a per acre value is assigned in each state.

## **Environmental Quality Incentive Program (EQIP)**

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This federal program, authorized in the 1996 Farm Bill, provides assistance to agricultural producers in complying with federal, state, and other environmental laws. Assistance provided through this program may be in the form of technical, cost-sharing, financial incentives, and producer education related to a broad range of soil, water, air, wildlife, and related natural resource concerns on farms and ranches. The EQIP assistance programs are available to crop, forage and forest products producers as well as wetlands and wildlife landowners who choose to enter into 5 and 10-year contracts based on conservation plans for their operations<sup>10</sup>. The EQIP may cost-share up to 75 percent of the costs of certain conservation practices. An individual or entity may not receive, directly or indirectly, cost-share or incentive payments that, in the aggregate, exceed \$450,000 for all EQIP contracts entered during the term of the Farm Bill.

## **Knowles-Nelson Stewardship Program: Local Assistance Grants<sup>11</sup>**

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The Local Assistance Grant program has \$8 million a year for ten years dedicated to programs that include acquisition and development of local parks, urban rivers, urban green space, and acquisition of development rights. The DNR administers the Stewardship Program. The Stewardship Program is an umbrella for a number of subprograms, each with its own goals, priorities, and criteria, which are summarized below. Projects submitted for grants under the Stewardship Program must be included in a locally-adopted park plan. Eligible groups include local and county units of government and nonprofit conservation organizations (NCOs). Grants for these programs provide up to 50 percent of a project cost. The application deadline is May 1 of each year.

### *Acquisition and Development of Local Parks*

The goal of this program is to enhance the quality of life for Wisconsin residents and visitors by expanding the opportunities for outdoor recreation in local parks and recreation areas. Funds are available to acquire land, rights in land, and develop public outdoor areas for nature-based outdoor recreation purposes.

### *Urban Rivers*

The goal of this program is to improve the quality of urban waterways and riverfronts through preservation, restoration, or enhancement which will encourage economic revitalization and expanded outdoor recreational opportunities. Funds are available to acquire land, rights in land, or develop shoreline enhancements on or adjacent to rivers that flow through urban or urbanizing areas.

### *Urban Greenspace*

The goal of this program is to enhance the quality of life for Wisconsin urban dwellers by providing open natural space within or in proximity to urban development. Funds are available to acquire lands to provide natural space within or near urban areas, protect scenic or ecological features, and to provide land for nature-based outdoor recreation.

### *Acquisition of Development Rights*

The goal of this program is to acquire development rights for the protection of natural, agricultural, or forestry values that would enhance nature based outdoor recreation opportunities. Funds are available to acquire development rights in areas where restrictions on residential, industrial, or commercial development would enhance nature based outdoor recreation.

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<sup>10</sup> Natural Resources Conservation Service

<sup>11</sup> 2005 Grant Guidelines and Application, Wisconsin Department of Natural Resources

## **Knowles-Nelson Stewardship Land Acquisition Program**

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This program is a comprehensive program that addresses a broad spectrum of land conservation and recreation needs across the state. The purpose of this program is to acquire land and easements for natural areas, habitat areas and fisheries, streambank protection, state parks, state trails, the Ice Age National Scenic Trail, the North Country National Scenic Trail, state forests, state recreation areas, wildlife areas, the Lower Wisconsin State Riverway, wild lakes, flowages, and lands for preservation of endangered and threatened species. Nonprofit conservation organizations qualify for these grants which fund up to 50 percent of a project's cost. Government entities do not qualify for this program. Reasonable public access is required for properties purchased or developed with program funds. When there is a question about public access, the DNR will determine what is appropriate and reasonable for a site.

## **Wisconsin Forest Legacy Program (FLP)**

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This program supports efforts to protect environmentally sensitive forest lands. Designed to encourage the protection of privately owned forest lands, FLP is a voluntary program. The program encourages and supports acquisition of conservation easements and legally binding agreements transferring a negotiated set of property rights from one party to another, without removing the property from private ownership. Participation in Forest Legacy is limited to private forest landowners. To qualify, landowners are required to prepare a multiple resource management plan as part of the conservation easement acquisition and the property must be identified in Forest Legacy Areas. The Kettle Moraine area in Washington County is located in a Forest Legacy Area. The federal government may fund up to 75 percent of program costs. The other 25 percent must come from non-federal sources, either as cash or in-kind contributions.

## **FUNDING SOURCE NOT CURRENTLY AVAILABLE IN WISCONSIN**

### **Real Estate Transfer Tax**

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A real estate transfer tax is a tax levied on the sale of certain classes of property, residential, commercial or industrial, that increases with the size of the property being sold. At the local level, the real estate transfer tax can create substantial funds for farmland and open space preservation, particularly in fast-growing communities. However, it can also raise real estate values and slow the real estate market. Since revenues from the tax fluctuate with the real estate market, income can be difficult to predict. In addition, winning public approval for additional taxation has proven to be a stumbling block for communities. In Wisconsin, this strategy would need approval from the state legislature.

The State of Maryland implements a real estate transfer tax. There is a 3-5 percent agriculture transfer tax that is collected and distributed to counties, which is used to preserve farmland throughout the state. Carroll County, Maryland averages \$500,000 a year from this tax to supplement their preservation efforts. In addition, the state has a ½ percent transfer tax on all non-agricultural property. These funds are also designated for farmland and open space preservation efforts. In addition to the State level real estate transfer tax, seventeen of the twenty-three counties in Maryland have a county real estate transfer tax. Howard County has a 1 percent transfer tax with ¼ percent of it dedicated to farmland preservation. Harford County also has a 1 percent transfer tax and dedicates ½ percent of the tax to farmland preservation.

## SUMMARY

Achieving the goals and objectives for the preservation of farmland and open space in Washington County will require a coordinated effort to fund and implement programs by government agencies, private organizations and individuals. To provide adequate and continuous funding, preservation programs need to combine several funding strategies including federal, state, local, and private money to successfully fund a farmland and/or open space preservation program.

Financing Strategies include:

- Bonds
- General funds appropriation
- Revolving loan fund
- Sales tax
- Impact fees
- Installment purchase financing
- Federal and State grants
- Outside private sources (i.e. foundations, corporations, land trusts)

Once the tools for a farmland and open space preservation plan are selected, a community needs to analyze the fiscal impacts of funding a program and how it will impact a community's residents and future economic health.