



Dedicated Revenue Sources for Land Conservation in Virginia

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Chesapeake Bay Commission

What Is JLARC?

- A non-partisan, non-political evaluation and research agency of the Virginia General Assembly
 - Full-time, permanent staff
 - Conduct objective research and analysis: program evaluation, policy analysis, legislative oversight
- Report study findings and recommendations to the General Assembly and the Governor

Study Mandate

SJR 335 (2011 Session)

JLARC to study long-term dedicated funding sources for land conservation and develop viable options for consideration in Virginia

In Brief

Virginia's approach to funding land conservation emphasizes conserving acreage over priority land.

Options for dedicated revenue sources would provide a balanced funding approach and improve Virginia's ability to conserve priority land.

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Background

Assessment of Virginia's Funding Approach
Options for Dedicated Revenue Sources

Land Preservation Tax Credit (LPTC) Is Primary Land Conservation Program

- Transferable tax credit for 40% of fair market value of donated land or easement
 - \$100 M cap on total credits issued per year, adjusted annually for inflation (\$111 M in 2012)
 - No limit on amount beneficiary can receive
 - Up to \$100,000 can be claimed annually for 10 years
- Donations must meet 1 of 8 conservation purposes

Four Grant Programs Support Broad Range of Land Conservation Projects

Grant Program	Type(s) of Conservation
Virginia Land Conservation Foundation	Open space, parks, farmland, forests, natural or historic areas
Open-Space Lands Preservation Trust Fund	Open space, farmland, others
Civil War Battlefield Preservation Grants	Civil War battlefields
Farmland Preservation Grants	Farmland preservation by localities

State Acquires Full Legal Title to Land for Public Use

Type of Land	# of Properties	Total Acres
Wildlife management areas	39	203,000
State parks	35	120,000
State forests	22	67,920
Natural area preserves	60	50,580

Four Funding Sources Support Land Conservation Programs

Funding Source	Primary Program(s) Funded
Foregone income taxes	Land Preservation Tax Credit
Bonds	State land acquisitions
General revenue	Grant programs
Dedicated revenue	Stewardship of conserved land

- Less than 2% of revenue from dedicated sources (FY 2002-11)

State Land Conservation Goals Encourage Conserving Acreage and Priority Land

- Acreage goals
 - Governor's goal to conserve an additional 400,000 acres
- Priority lands
 - Land with public access (State parks, wildlife management areas)
 - Forestland in the Chesapeake Bay watershed
 - Civil War battlefields
 - Buffer areas

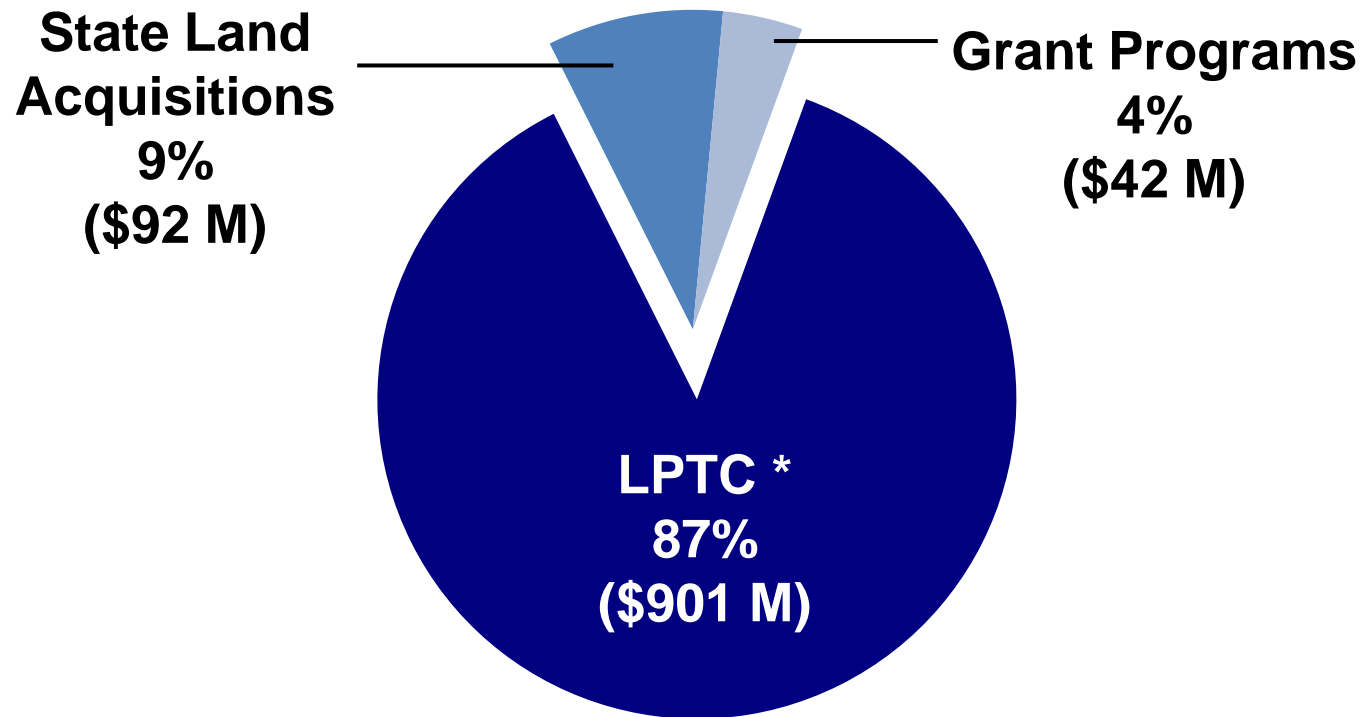
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Land Conservation Expenditures Totaled \$1 B, Mainly Through LPTC (2002-11)



** Excludes approximately \$120 M in unclaimed, unexpired LPTC credits*

Financial Support for LPTC Has Been Relatively Stable While Grant Funding Has Been Unstable and Difficult to Predict

Program	Average Annual % Change	# of Years Annual % Change > 50%
LPTC	4%	0
State Land Acquisitions	26	2
Grant Programs	148	5

** Data for 2002-2011*

LPTC Has Been a Relatively Cost-Efficient Conservation Method

- LPTC minimizes conservation costs by
 - acquiring easements (98% of all LPTC donations)
 - leveraging landowner donations (60% of fair market value, 50% pre-2007)
- \$1.2 B in LPTC credits have conserved 560,000 acres with appraised market value of \$2.7 B

Cost Efficiency of Grant and Land Acquisition Programs Has Varied

Example of Program With Higher Cost Efficiency

Farmland Preservation Grants

- Extensive leveraging of non-State funds
- Conservation easements

Example of Program With Lower Cost Efficiency

State Land Acquisitions

- Limited leveraging of non-State funds
- Full-title acquisitions
- Debt service costs

LPTC Enabled Virginia to Substantially Increase Its Conservation Rate

- Accounts for 76% of new acres conserved over last decade
- Critical to meeting statewide acreage goals

400,000-Acre Goal	% of Acres Receiving LPTC Credits
2006 – 2010	65%
2010 – 2014	96%

LPTC Has More Limited Ability to Direct Financial Support Toward Priority Land

- Limited ability to conserve land at full cost or provide public access
 - Requires 60% donation from landowner
 - Public access often requires full title
 - Only 2% of LPTC donations were for full title
- Credits awarded first-come first-served in 8 categories
 - No guarantee conserved land will meet priorities
 - More than 70% of land is in Chesapeake Bay watershed

Grants and Land Acquisitions Can Better Direct Funds to Priority Land

- Prioritize projects that best meet program criteria or conservation goals
 - Example: DCR grants awarded based on project ranking
- Can compensate landowners for full value of title or easement
 - Better able to conserve land for public access

Other States Rely More on Grants, Land Acquisitions, and Dedicated Revenue

- Pennsylvania: Relies solely on grant and land acquisition programs
 - Revenue from dedicated sources: bonds, real estate transfer tax, cigarette tax
- Maryland: Relies mainly on grant and land acquisition programs
 - Land conservation tax credit: < \$1 M
 - Grants and land acquisitions: ~ \$100 M
 - Dedicated revenue sources: Real estate and agricultural transfer taxes

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Options for Dedicated Revenue Sources

Virginia Could Continue Current Funding Approach or Adopt Balanced Funding Approach

- Continue current funding approach
 - Allocates high share of revenue to LPTC
 - Emphasizes acreage over priority land
- Adopt balanced funding approach
 - Allocates greater share of revenue to grants and land acquisitions
 - Increases emphasis on priority land
 - Is potentially less cost-efficient and slows overall conservation rate

Option 1: Dedicate General Revenue to Grants and Acquisitions at Current Funding Levels

- Provides more stable revenue at current funding levels
 - Avoids interest costs of bonds
- Dedicate revenue at average annual funding levels
 - Grants: \$4.2 M
 - Land Acquisitions: \$9.2 M
- General revenue source options
 - State sales and use tax
 - State recordation tax

Option 2: Redirect Financial Support From LPTC to Grants and Land Acquisitions

- Provides a more balanced funding approach by redistributing existing revenue
- Reduce annual cap on LPTC credits issued
 - Example: \$10 M reduction returns cap near original \$100 M
- Dedicate ~ \$10 M in general revenue to grants and land acquisitions

Redirecting LPTC Funds Would Increase Emphasis on Priority Land but May Slow Overall Conservation Rate

- Redirecting \$10 M would nearly double annual funding for other programs
- Would slow rate of conservation donations and may reduce overall conservation rate
- Redirecting substantial amount could limit access to LPTC for small landowners

Redirecting Financial Support From LPTC Would Need To Be Phased-In

- Minimizes fiscal impact
 - Step 1: Reduce annual cap on credits issued
 - Step 2: Gradually redirect financial support as fewer credits are claimed
- 50% of reduced cap could be redirected in first year, 75% by third year

Option 3: Increase Fee on Transferred LPTC Credits

- Expands existing dedicated revenue source for land conservation
 - Current fee supports LPTC administration and land stewardship
- Additional revenue could be dedicated to grants and land acquisitions

Increased Transfer Fee Could Provide Moderate Revenue but Reduces Credit Value

- Each percentage point increase in fee could provide \$980 K in annual revenue
- Reduces net value of transferred credit (currently 75%)
 - Increases average transfer cost by \$4,700
- Could make LPTC less attractive for some landowners
 - Transferability important for landowners with limited tax liability

Option 4: Increase \$1 Deed Recordation Fee and Collect Statewide

- Expands existing dedicated revenue source
 - \$1 Open Space Preservation fee assessed in most localities and supports land stewardship
- Could increase fee and/or expand to all localities

Expanding \$1 Fee Provides Moderate Revenue but Increases Recordation Costs

- Each \$1 increase to fee collected statewide
 - \$680 K in additional revenue annually
 - \$1 cost to taxpayers recording 40 types of deeds
- Current recordation fees in Virginia
 - Conveyance deeds: \$43
 - Trust deeds: \$37
- Current recordation fees in Virginia are higher than 37-42 states

Option 5: Authorize Additional Bonds for Land Acquisition

- Prior bond authorizations have supported land conservation
 - General obligation bonds: 1992, 2002
 - Virginia Public Building Authority bonds: 2002, 2008
- Could include \$40 M for land conservation in future bond
 - Keeps land conservation's share of tax-supported debt at ~ 5%

Bonds Could Provide Substantial Revenue but Have Interest Costs and Reduce Debt Capacity

- Bond proceeds could support land acquisition and development
 - State parks, wildlife management areas, others
- \$16-26 M in total interest costs for \$40 M bond
- State's debt has grown substantially in recent years
- Reduces State's debt capacity

Option 6: Dedicate Recordation Tax Revenue to Grants and Land Acquisitions

- Real estate taxes/fees are a common revenue source for land conservation
- Could be implemented in two ways
 - Divert existing revenue
 - Apply a surcharge
- Current recordation tax rates
 - State recordation: 25¢ per \$100
 - Grantor's: 50¢ per \$500

Recordation Taxes Could Provide Substantial Revenue but Have Negative Impacts

- Diverting 1¢ or adding 1¢ surcharge could provide
 - Recordation tax: \$13.0 M annually
 - Grantor's tax: \$1.1 M annually
- Diverting revenue would be at general fund's expense
- 1¢ surcharge would increase recordation costs by \$4 or \$36 for average home

Option 7: Use Multiple Revenue Sources to Lower Financial Impact on Taxpayers

Illustrative Option	Estimated Annual Revenue (\$ M)
1/10¢ recordation surcharge/diversion	\$1.3
0.25% increase in LPTC transfer fee	0.3
50¢ increase in \$1 deed recordation fee	0.4
Interest on Virginia Land Conservation Fund	0.2
\$2 annual conservation stamp (hunters, anglers)	1.2
5% surcharge on State park fees	0.8
Total Estimated Annual Revenue	\$4.2

Report Materials

- Complete briefing slides and report posted on website
 - <http://jlarc.virginia.gov/reports.html>

QUESTIONS?