

Evergreen *Conservation Finance*

Financing Alternatives for
Farmland Preservation

**Presentation to the
Massachusetts Farmland Protection Forum**

**Daniel Patrick O'Connell
December 3, 2008**

What's Wrong with Cash?



- **Seller pays capital gains tax**
- **Farmers: no 100% deduction**
- **Discount reduces 15% capital gains tax, not 35% income tax**
- **Meet seller needs to preserve**

Tools in Preservation Toolbox



- **Bonds, loans or grants:**
Use proceeds to pay cash
- **Seller financing:** Purchase price, interest over term
- **Pensions:** After retirement, with increased value

Bonds from Dedicated Revenues

Year	Dedicated Revenues	20-Year		Price per Acre	
		Bonds @ 4.50%	Debt Service	Growing 5%	Acres Acquired
1	\$4,000,000	\$10,400,000		\$5,000	2,080
2	4,000,000	10,400,000	\$799,512	5,250	1,981
3	4,000,000	10,400,000	1,599,024	5,513	1,887
4	4,000,000	10,400,000	2,398,536	5,788	1,797
5	4,000,000	10,400,000	3,198,048	6,078	1,711
6	4,000,000		3,997,560		
		<u>\$52,000,000</u>			<u>9,456</u>

History of SRFs



- **Created by 1987
Amendments to Clean Water Act**
- **Clean Water State Revolving
Funds: 80% EPA grant, 20% state
match, \$30 billion since 1987**

SRF Loans for Preservation

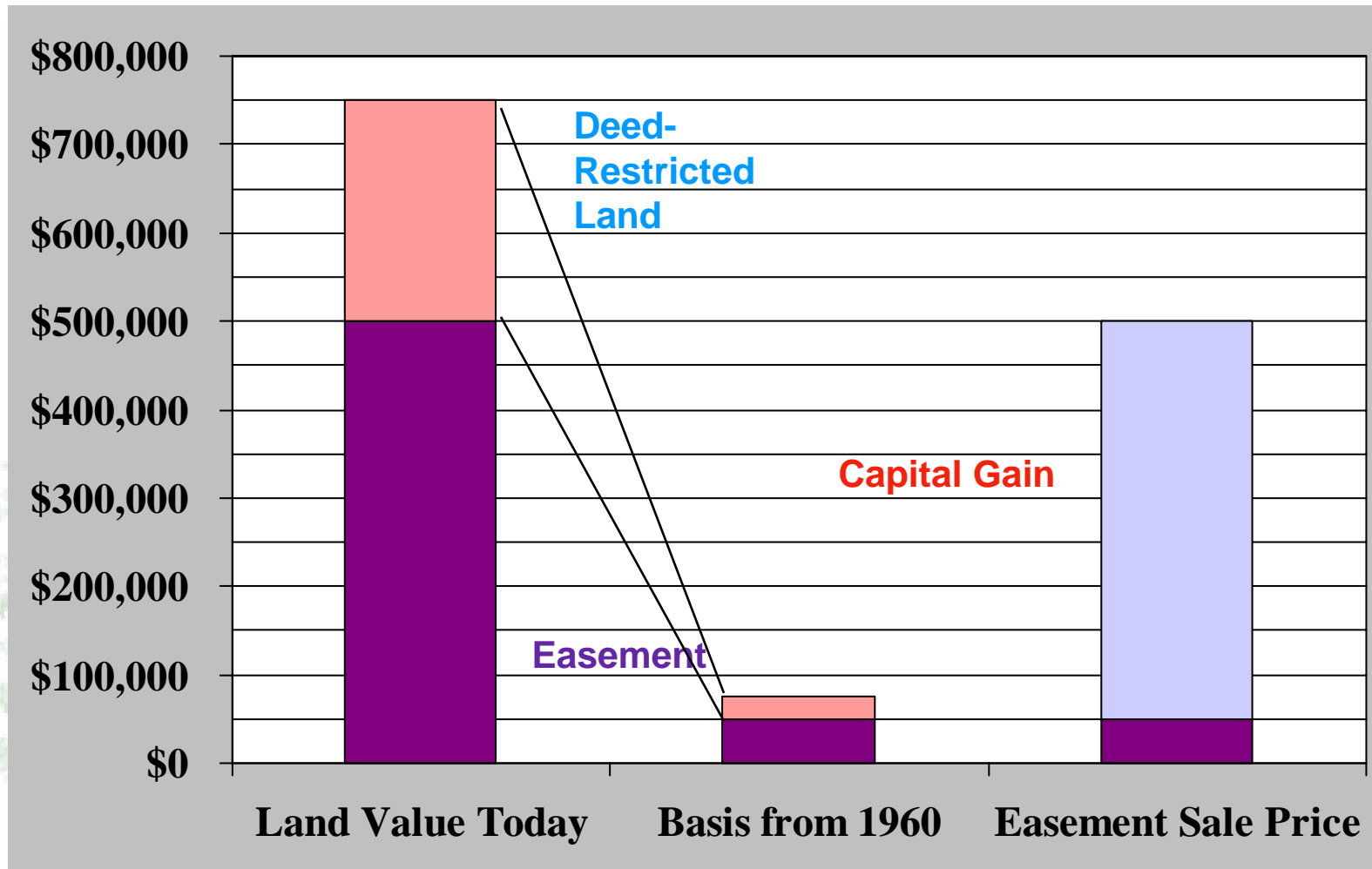


- **CA: \$8 mm (TNC for wetlands), \$25 mm (TCF for timberland)**
- **NY: \$27 mm (NYC for watershed protection)**
- **OH: \$24 mm (TPL for wetlands and stream corridors)**

SRF Loans from Dedicated Revenues

Year	Dedicated Revenues	20-Year SRF Loans @ 2.00%	Debt Service	Price per Acre Growing 5%	Acres Acquired
1	\$4,000,000	\$13,080,000		\$5,000	2,616
2	4,000,000	13,080,000	\$799,930	5,250	2,491
3	4,000,000	13,080,000	1,599,860	5,513	2,373
4	4,000,000	13,080,000	2,399,790	5,788	2,260
5	4,000,000	13,080,000	3,199,719	6,078	2,152
6	4,000,000		3,999,649		
		<u>\$65,400,000</u>			<u>11,892</u>

Problem for Sellers: Capital Gain



Bargain Sales and the New Tax Law



- **New tax law: Deduct 50-100% from income for 16 years**
- **Qualified farmer: >50% from farming in year of sale**
- **Shift gain from bargain sale year**

Installment Purchase Agreement



- **IPA (contract) between buyer and seller from easement**
- **Buyer pays purchase price at end of up to 30 years**
- **Buyer pay tax-exempt interest during term of IPA**

Setting IPA Term, Amortization



Incentive to push balloon out:

- **Assured stream of revenue**
- **Reduced chances of paying tax**
- **Deduction reduces income tax**

Longer term maximizes benefits

Funding of IPA Payments



- Invest grant at closing in zeros: **25¢/\$1**
- Grant balance for acquisitions, revenues for annual interest
- Invest loan proceeds in SLGS to pay IPA interest, principal

Benefits to Seller from IPA



- **Capital gains tax deferral**
- **Tax-exempt interest on full sale**
- **Charitable deduction of discount from 100% of farmer income**
- **Sell IPA to investors for cash**

MALPF IPAs through MARBIDCO



MARBIDCO
growing rural ventures™

- **MALPF makes grant to MARBIDCO of price**
- **MARBIDCO subscribes for SLGS on seller's schedule**
- **SLGS's interest and maturing principal passed to seller**

MARBIDCO

Five Term Options



- **10-Year: 3.86% (= 6.20%)**
- **15-Year: 4.46% (= 7.19%)**
- **20-Year: 4.54% (= 7.34%)**
- **25-Year: 4.53% (= 7.33%)**
- **30-Year: 4.51% (= 7.31%)**

www.marbidco.org/land/ipas.html

MARBIDCO IPA Interest Calculator - Windows Internet Explorer

http://www.marbidco.org/land/MARBIDCO-IPA.html

Maryland Agricultural & Resource-Based Industry Development Corporation

MARBIDCO growing rural ventures™

Home | About Us | Loan & Rural Business Assistance Programs | Rural Land Preservation Programs | Application Forms | Resources | Archives | Directions

MARBIDCO IPA Interest Calculator: Results

This table calculates the tax-exempt interest that a landowner would receive at today's interest rates on one or more installment purchase agreements (IPAs) with MARBIDCO. If MALPF has accepted a landowner's offer to sell development rights, the landowner can choose to be paid all or a portion of the purchase price through one or more IPAs with MARBIDCO. Interest rates on IPAs will be set at closing based on market conditions.

\$650,000 Total Installment Purchase Agreement(s)

Final Maturity (Years)	10	15	20	25	30	Total
Interest Rate *	3.86%	4.46%	4.54%	4.53%	4.51%	
IPA Principal Due	\$130,000	\$130,000	\$130,000	\$130,000	\$130,000	\$650,000
Semi-Annual Interest Payments	\$2,509	\$2,899	\$2,951	\$2,945	\$2,932	\$14,235
Annual Interest Payments	\$5,018	\$5,798	\$5,902	\$5,889	\$5,863	\$28,470
Total Interest Payments	\$50,180	\$86,970	\$118,040	\$147,225	\$175,890	\$578,305

IPAs from Dedicated Revenues

Year	Dedicated Revenues	30-Year IPAs @ 4.75%	Cost of STRIPS @ 25.0%	Interest on IPAs	Annual Cost	Total Price per Acre for Acquisitions	Growing 5%	Acres Acquired
1	\$4,000,000	\$16,000,000	\$4,000,000		\$4,000,000	\$16,000,000	\$5,000	3,200
2	4,000,000	12,960,000	3,240,000	760,000	4,000,000	12,960,000	5,250	2,469
3	4,000,000	10,490,000	2,622,500	1,375,600	3,998,100	10,491,900	5,513	1,903
4	4,000,000	8,500,000	2,125,000	1,873,875	3,998,875	8,501,125	5,788	1,469
5	4,000,000	6,880,000	1,720,000	2,277,625	3,997,625	6,882,375	6,078	1,132
6	4,000,000			2,604,425	2,604,425	1,395,575	6,381	219
		<u>\$54,830,000</u>				<u>\$54,835,400</u>		<u>10,392</u>

Impact of Higher Tax Rates

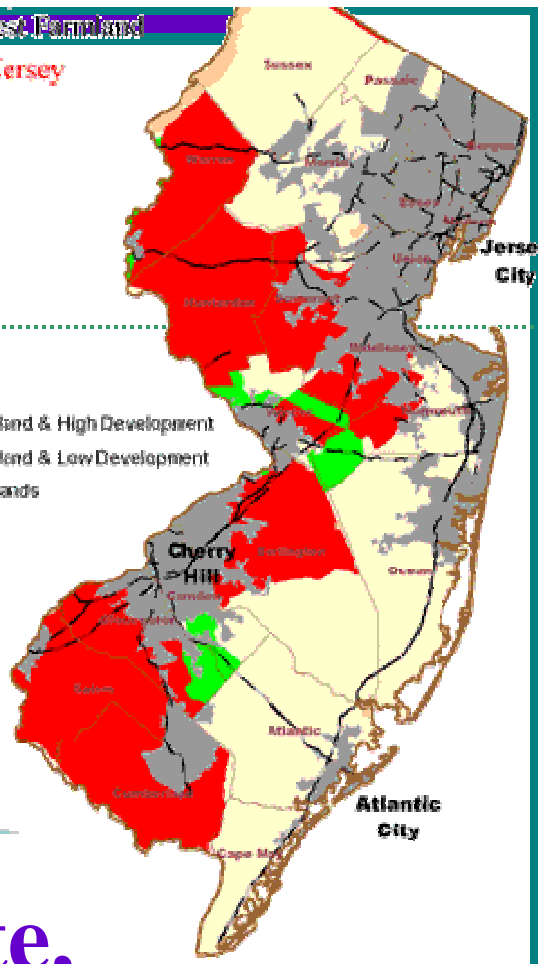


		<u>Cash</u>	<u>IPA</u>
Sale Price		\$650,000	\$650,000
Capital Gains Tax @	15%	<u>(97,500)</u>	<u>0</u>
Balance to Invest		\$552,500	\$650,000
Interest @	4%	\$22,100	\$26,000
Income Tax @	35%	<u>(7,735)</u>	<u>0</u>
After-Tax Income		\$14,365	\$26,000
After 10 Years		\$143,650	\$260,000
Balance to Invest		552,500	260,000
Capital Gains Tax @	28%	<u>0</u>	<u>(182,000)</u>
Net to Seller		\$696,150	\$728,000

NJ Agricultural Land Trust

Legend:

- High-Quality Farmland & High Development
- High-Quality Farmland & Low Development
- Federal & Indian Lands
- Urban Areas
- Other Lands



- **Acquire farms from willing sellers**
- **Sell easements to state, county programs**
- **Sell farmland at discount prices**
- **Receive donated easements**

Virginia Farm Preservation Partners, LLP



- **Limited partnership to acquire farms, sell easements, sell land, retain interest**
- **Limited partner: Conservation investors**
- **General partner: Evergreen**

Aggie Bonds to Buy Farms



- **Low-interest (tax-exempt) loans to beginning farmers**
- **\$280 million available annually**
- **\$450,000 maximum price**
- **No prior farm > 30% of average**

"This Land Is My Retirement Plan"



- **Future financial uncertainty:
Reluctance to preserve now**
 - **Sale now decouples owner from
appreciating real estate market**
- Pension for Preservation (P4P)**

Pensions for Preservation (P4P)



Pay for property through funding of pension trust fund

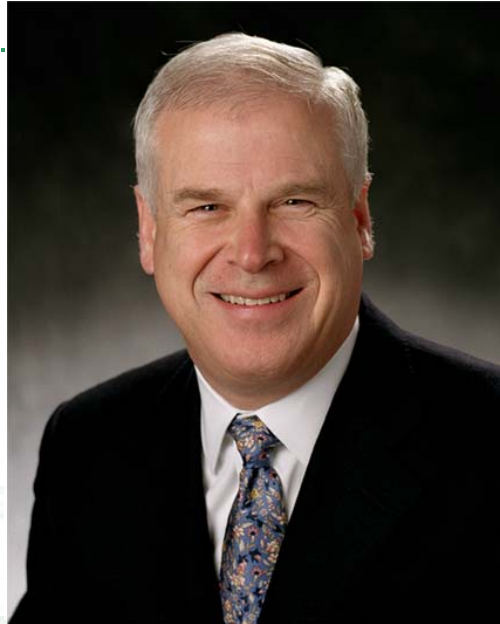
- **20 annual payments to trust**
- **Investments controlled by seller**
- **Withdrawals modeled on IRA**

Pensions to Preserved Farms



- **Annual funding: Based on acreage (leased/owned) in production**
- **Payments deferred: Same investment and withdrawal as P4P**
- **Makes farming more viable, farms more valuable to farmers**

Evergreen *Conservation Finance*



Daniel Patrick O'Connell
5819 Chevy Chase Parkway
Washington, DC 20015
(609)915-9886
pat@evergreencf.com



Honora Morrissey Freeman
310 Paddington Road
Baltimore, Maryland 21212
(410)456-5598
honora@evergreencf.com