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Purchase of Agriculture Conservation Easements Present, Past & Future

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Subject: Kentucky Purchase of Agricultural Conservation Easement (PACE) Program

Purpose: To provide a program and funding status update on the Kentucky PACE Program

1. The Kentucky General Assembly in 1994 established the Purchase of Agricultural Conservation Easement Corporation and authorized the state to purchase agricultural conservation easements in order to ensure that lands currently in agricultural use will continue to remain available for agriculture and not converted to other uses.
2. Although PACE was established to purchase conservation easements, landowners also are encouraged to donate easements in order to dedicate their land to agricultural uses. Donors of conservation easements may receive federal and state income tax and estate tax benefits. In May 2008, Congress approved a two-year expanded federal tax incentive for conservation easement donations. Farmers can offset up to 100% of their adjusted federal gross income with conservation donations, potentially zeroing out their tax liability for the next 15 years.
3. Since its inception, the PACE Corporation has purchased agricultural conservation easements on 89 farms totaling 21,450.87 acres for \$18,187,811.88. The easement costs have averaged \$847.88 per acre. The PACE Corporation has not purchased any horse farm agricultural conservation easements. The average farm size is 241.02 acres for purchased easements.
4. Participation in the PACE program is strictly voluntary. The program enables landowners to realize a portion of the equity in their land without having to sell it. Proceeds from the sale of an easement can be used for any purpose, although studies throughout the U.S. and Kentucky reflect that significant amounts of proceeds are routinely reinvested back into farm operations. Participation can make farming more affordable to children and other young farmers by effectively reducing the value of the land, and program participation can aid in the transition from one generation of farmers to another.
5. The PACE Corporation uses a comprehensive evaluation process to rank-order applications to ensure those farms with highest production value and best soils are considered for easement purchases. The Kentucky Division of Conservation provides soil survey, land use and



**Purchase of Agriculture Conservation Easements
Present, Past & Future
Page Two**

Geographical Information System data to assist the PACE Board with the ranking of landowner applications to offer their land to be eased under the program.

6. Landowners have voluntarily donated 46 easements totaling 6,611.18 acres to the program with a known value at the time of donation exceeding \$23,213,983.35 at the time of donation. Not everyone requires deductions resulting in an unknown value for 25 of those easements (more than half). In 2007 alone, the program received 2,270.47 acres in donated lands value at \$16,737,403.35 under new generous federal tax incentives.

7. Since the inception of the program, the program has accumulated a total of 135 easements comprising 28,062.06 acres, valued at over 41,401,795.23. In addition, the Department received over 860 applications from 75 counties statewide totaling over 160,000 acres. Currently, 667 applications are pending for a total of over 129,000 acres with an estimated easement value of over \$100 million.

8. Past PACE program funding sources have included appropriations, bonds, tobacco settlement funds, Department of Defense Army Compatible Use Buffers Program (ACUB), and Farmland Protection Program matching funds. The program requires a minimum General Assembly appropriation of four hundred thousand (\$400,000) dollars to execute its minimal program objectives.

9. The Kentucky General Assembly has provided funding to the PACE Corporation to purchase agricultural conservation easements every year since inception until this year. The lack of funding is responsible for the application backlog and precludes the PACE Corporation from leveraging General Assembly funding to obtain matching grants from the U.S. Department of Agriculture Farmland Protection Program (FPP).

10. The FPP provides matching funds to state, local, and tribal agricultural easement acquisition programs. The 2008 Farm Bill authorized \$743 million for the FPP through fiscal year 2012 and the lack of General Assembly appropriations effectively precludes Kentucky farmers and the PACE Corporation from benefiting from this program.

11. Lack of funding is also adversely affecting the PACE Corporation's ability to accept the voluntary donation of agriculture conservation easements from farmers across Kentucky. The PACE program is the only state-wide entity available to accept agricultural conservation easement donations given the limited number of land trusts in Kentucky and corresponding limited geographical coverage of the land trusts' service areas.

12. The PACE program is the most cost effective program available for land-rich and cash-poor farmers as the PACE program does not require endowments that most private land trusts do to fund administrative, legal, and annual monitoring costs. Additionally, the program funds the surveys required for PACE program participation. The effect is that farmers willing and able to voluntarily donate agricultural easements to the PACE program are unable to execute their

Purchase of Agriculture Conservation Easements Present, Past & Future Page Three

desires and may be precluded from realizing significant tax benefits that could be reinvested in on-going farming operations.

13. As of May 2008, 27 states have authorized state-level PACE programs. According to the American Farmland Trust Farmland Information Center, Kentucky's PACE available program funds per capita as of January 1, 2008 was just \$0.04 compared to Georgia (\$6.29); Ohio (\$0.51); Delaware (\$13.53), and Pennsylvania (\$2.65).

14. The Kentucky PACE program is more than an agricultural land conservation program. It also is a key enabler for Kentucky's significant agricultural industry which remains a key economic engine for the Commonwealth. Its farmland serves as the "green factory floor" upon which the industry is dependent to prosper in the future. The PACE program serves to preserve that green infrastructure for future generations, preserves employment opportunities, and ensures a perpetual source of food and fiber for the Commonwealth and the nation.

15. The USDA Economic Research Service released its latest Kentucky State Fact Sheet on September 15, 2008. The total value of agriculture commodities receipts for 2007 was \$4.4 billion and the total value of agriculture exports was an estimated \$1.2 billion. 18.4 percent of the overall 2002 Kentucky population was employed in farm and farm-related jobs, to include 22.7 percent of those living in rural areas of the Commonwealth.

16. Alarming, the Economic Research Service fact sheet reflects that the number of farms in Kentucky decreased 1,000 from 2006 to 83,000. The 83,000 farms should be viewed as 83,000 small, medium and large businesses providing a significant portion of the state's gross income and tax revenues.

	KY	VA		
Population Estimate 2007	4,241,474	7,712,091		
Land Area (Square Miles)	39,728.18	39,694.07		
Number of Farms, 2007	83,000	47,100		
Land in Farms, Acres, 2002	13,843,706 (down 1 percent from 1997)	8,624,829 (down 1 percent from 1997)		
Farm Receipts, 2007	\$4,432,409,000	\$2,950,380,000		
Top 6 Commodities, 2007 (\$000)	1. Horses/mules	\$1,125,900	1. Broilers	\$559,430
	2. Broilers	721,325	2. Cattle and calves	429,977
	3. Cattle and calves	695,036	3. Dairy products	371,685
	4. Corn	465,255	4. Turkeys	298,584
	5. Soybeans	348,055	5. Greenhouse/nursery	247,980

Sources: USDA Economic Research Service State Fact Sheets, 15 Sep 2008 and 2002 Census of Agriculture

17. The \$4.4 billion in cash receipts does not reflect the full size and breadth of Kentucky's agricultural industry.

18. The Weldon Cooper Center for Public Service at the University of Virginia released Virginia Agriculture and Forestry Economic Impact Study on September 24, 2008.

19. The study reveals that Virginia agriculture and forestry contribute about \$79 billion annually to Virginia's economy. The total impact of agriculture-related industries was over \$55 billion in total industry output and