



North Carolina Land Conservation Financing Study Excerpt: Federal Funding Sources

April 2004

Federal Funding

Under the heading – “Federal Funding” – there are three distinct types of funding. The first are grants awarded directly to states, which provide wide latitude to the states for determining how to spend the funds, in accordance with federal program rules. These will be referred to as “State Directed Federal Grants.” The second group of federal programs entails the federal government making direct grants to local recipients, typically local governments. Decision making in these “Direct Federal Grant” programs resides at the federal level. Finally, the federal government may make direct acquisitions for its own federal units, such as additions to national parks and a potential effort by the Defense Department to protect land surrounding existing military bases.

The most significant programs are run by the National Resource Conservation Service (NRCS), US Forest Service, US Fish and Wildlife Service, National Park Service and the Department of Transportation. For the purpose of this report, the following programs have been evaluated: Clean Water State Revolving Fund; Drinking Water State Revolving Fund; Clean Water Act Section 319; Land & Water Conservation Fund; Farm and Ranch Land Protection Program; Forest Legacy Program; North American Wetlands Conservation Act; and the Transportation Efficiency Act. All of these programs vary considerably in both purpose and scope of funding.

State Directed Federal Grants

Land & Water Conservation Fund (LWCF) Stateside

The Stateside LWCF program provides grants to the states to use for land protection. The fund provides a 50 percent match to states for planning, developing and acquiring land and water areas for natural resource protection and recreation enhancement. Annual appropriations to the Fund have ranged from a high of \$369 million in 1979 to four years of zero funding between 1996 and 1999. In recent years, the Fund has seen a significant increase in appropriations for state and local grants with \$40 million in FY 2000, almost \$89 million in FY 2001, \$140 million in FY 2002, and \$95 million for FY 2003. Funds are distributed to states based on population and need. Once the funds are distributed to the states, it is up to each state to choose the projects, though NPS has final approval.

LWCF in North Carolina

In North Carolina, the program is administered by the Department of Environment and Natural Resources. Since 1965, the LWCF program has provided more than \$63 million in matching grants to protect land and support more than 800 state and local park projects. More than 37,000 acres have been acquired with LWCF assistance to establish a park legacy in the state. The FY 2003 state allocation for North Carolina was \$2.1 million, down from \$3.2 million in FY 2002. Historically, North Carolina's LWCF annual allocation has been split 60/40 between local governments and state agencies.

Conservation Reserve Enhancement Program

The Conservation Reserve Enhancement Program (CREP) is a joint effort of the U.S. Department of Agriculture, the North Carolina Division of Soil and Water Conservation, the Clean Water Management Trust Fund, and the Wetlands Restoration Program to address water quality problems of the Neuse, Tar-Pamlico and Chowan river basins and the Jordan Lake watershed. CREP is a voluntary program that seeks to protect land along waterways that is currently in agricultural production. Landowners within the targeted watersheds may participate in the program by enrolling land in term or permanent conservation agreements.¹

The program has completed 40 permanent conservation easements on 2,577 acres and another 242 shorter-term easements on 5,621 acres. Nearly 400 additional agreements are processing. In 1999, the USDA and the North Carolina Department of Agriculture agreed to offer farmers incentives to restore up to 100,000 acres of wetlands and streamside areas and habitats through the Conservation Reserve Enhancement Program over ten years. Over that time period, if this goal is met, the North Carolina CREP will receive \$221 million from USDA, and the state has committed roughly \$53.5 million from the Clean Water Management Trust Fund, Agriculture Cost Share Program, and the Wetlands Restoration Program.²

Clean Water Act

Under the Clean Water Act, the U.S. Environmental Protection Agency (EPA) funds four water quality programs, with the Clean Water State Revolving Fund (CWSRF) by far the largest.

Clean Water State Revolving Fund (Section 212): The CWSRF provides loans for water quality improvements and has traditionally been used for wastewater treatment upgrades, although some states have used funding for land conservation. The annual capitalization grants totaled \$1.34 billion in 2003.

Drinking Water State Revolving Fund: The EPA awards grants to states to fund their Drinking Water State Revolving Funds (DWSRF). State DWSRFs provide loans and other assistance to eligible public water systems to finance the costs of infrastructure projects, including land acquisition. Up to 15 percent of the funds can be set-aside to fund source water protection activities, including land acquisition, although only 10 percent may go to a single purpose. The annual capitalization grants totaled \$627 million in 2003

Nonpoint Source Program (Section 319): Provides grants for projects that address nonpoint source pollution, such as BMPs (best management practices) implementation, restoration and public education. On a very limited basis, Section 319 has been used for land conservation. Funding for 2002 totaled \$237.5 million.

National Estuary Program (Section 320): Funds projects that protect or improve estuaries. \$20.3 million was appropriated to the program in 2003.

¹ www.enr.state.nc.us/DSWC/pages/crep.html.

² Personal communication with Tom Potter, CREP Manager, 3/15/04.

Clean Water State Revolving Fund (CWSRF)

Under the CWSRF, the EPA provides annual grants to states that match the capitalization grants with 20 percent of their own funds. States use these capitalization grants to provide loans (grants are not permitted) to public and private borrowers, with a maximum term of 20 years. States may pool the federal capitalization grant with other funding and can also issue bonds using pool funds.

Since the CWSRF Program began in 1987, the federal government has provided \$19.5 billion in capitalization grants, which have been matched by \$4.2 billion in state contributions (See figure at right). Nearly half the states have used these federal and state funds to back the issue of more than \$16 billion in bonds to fund projects and to create debt service reserves. In 2001, the average leveraging ratio was roughly 2:1. In total, more than \$35 billion in funding has been created through the CWSRF program since it began.³

Clean Water SRF Investment

1987 - 2002

	\$ billions
Federal Capitalization Grant	\$ 19.5
State Contributions	\$ 4.2
Leveraged Bond Proceeds	\$ 16.7
subtotal	\$ 40.4
<i>less Debt Service Reserve</i>	<i>\$ (5.0)</i>
Total Net SRF Investment	\$ 35.5

CWSRF Innovations: Land Conservation

States file an intended use plan with the EPA that clearly spells out how they will allocate their CWSRF funds. Since the program's inception, most states have used their CWSRF primarily for wastewater treatment plants. However, since 1995, more funding has been shifted into nonpoint source pollution control and estuary management, with roughly six percent of annual funds going for non-point source pollution, up from one percent in prior years.⁴ In particular, several states have used their CWSRF to help local governments and nonprofits purchase watershed land, restore watersheds and reduce flooding.

New York: In recent years, the state of New York has made several significant loans to help local governments protect critical drinking watershed lands through its Clean Water State Revolving Fund. The City of New York has received a \$27 million CWSRF loan to acquire land within the Delaware/Catskill water supply. In order to avoid building a new filtration plant, New York City will spend \$1 billion over a 10-year period for watershed land acquisition.⁵ The state's CWSRF also made a \$75 million loan to Suffolk County to protect land within the Pine Barrens Wilderness and Water Protection Preserve on Long Island, the recharge area for the sole source aquifer for 2.6 million people.⁶

³ Clean Water SRF Investment, by State. EPA Clean Water State Revolving Fund. <http://www.epa.gov/r5water/cwsrf/inva.htm>

⁴ Clean Water SRF Supplemental Data Report: Total Annual NPS Project Assistance as Percent of Total WWT, NPS and Estuary Project Assistance. U.S. EPA. <http://www.epa.gov/r5water/cwsrf/pdf/supnps.pdf>

⁵ "New York City Applies for \$27 Million CWSRF Loan for Watershed Land Acquisition." CWSRF Activity Update. U.S. EPA

⁶ "New York CWSRF Makes \$75 Million Land Acquisition Loan in Pine Barrens." CWSRF Activity Update.

CWSRF in North Carolina

In North Carolina, federal CWSRF funds are made available to units of local government at one-half (1/2) of the market rate for a period of up to twenty (20) years. The actual term of the loan is determined by the State Treasurer's Office. Funds are limited to \$7,500,000 per applicant for any one project per fiscal year's allocation, although funding from more than one fiscal year is often available. The program is administered by the Construction Grants and Loans Section of the Department of Environment and Natural Resources, which also administers the North Carolina Clean Water Revolving Loan and Grant Fund. In 1987, the North Carolina General Assembly created the North Carolina Revolving Loan and Grant Program to provide state financing for the construction of wastewater facilities. Funding for this program is dependent upon legislative appropriations.

In FY 2002, federal CWSRF capitalization grants of \$24 million were available to North Carolina. State contributions totaled \$4.8 million. To date, North Carolina has not used CWSRF grants to secure revenue bonds. By doing so, the state could expect to add at least another \$24 million in Clean Water SRF funding.⁷ According to EFC, the current demand for structural projects in North Carolina outstrips the available funds. Leveraging could provide a means to extend SRF loans to projects such as land acquisition.

Drinking Water State Revolving Fund (DWSRF)

Under the Safe Drinking Water Act Amendments of 1996, the EPA is authorized to provide grants to states to capitalize Drinking Water State Revolving Funds. The State Revolving Funds provide loans and other assistance to eligible public water systems to finance the cost of infrastructure projects. States must file an intended use plan describing how they will use the proceeds and must match 20 percent of the grant. Up to 15 percent of the funds can be set-aside to fund source water protection activities, including land acquisition.⁸ However, no more than 10 percent of the set-asides can be used for a single type of activity. Grants are allotted to each state based on needs identified in the most recent Drinking Water Needs Survey.

DWSRF in North Carolina

Between fiscal years 1997 and 2002, North Carolina received \$100 million in federal DWSRF grants, or 2.3 percent of the total \$4.4 billion provided to the states.⁹ Each state received a minimum of one percent of the total, based on a needs assessment. During fiscal year 2003, North Carolina will receive roughly \$14 million, or 1.76 percent of the total allotments. The state has not used DWSRF monies to issue bonds.

According to US EPA, between fiscal years 1997 and 2002, North Carolina did not allocate any of its DWSRF for land acquisition purposes. With the state's annual federal grant averaging \$14 million over the past four years, allocating 10 percent for land acquisition (as permitted under the provisions of the DWSRF program) would yield \$1.4 million per year.

Clean Water Act Section 319 (h) -- Nonpoint Source Pollution

In 1987 Congress recognized that state and local water authorities needed assistance with developing and implementing measures to control nonpoint source (NPS) pollution. The enactment of Section 319 of the Clean Water Act (CWA) established a national program to control nonpoint sources of

⁷ Costs and financing options for the North Carolina Million Acre Initiative, EFC at UNC, January 24, 2001.

⁸ SDWA Sec. 1452 (k)

⁹ Distribution of DWSRF Funds. US EPA <http://www.epa.gov/safewater/dwsrf/nims/dwnc.pdf>

water pollution, as well as a means to help fund state and local implementation of nonpoint source management programs.

Under the provisions of Section 319, land acquisition can be used as a nonpoint source management tool. In EPA Region 4 (Southeastern U.S.),¹⁰ fifteen land acquisition projects were approved between fiscal years 1995 and 1999, at a total cost of \$5.2 million. Two of these projects --totaling \$1.47 million-- were subsequently canceled. EPA Region 4 has been the leader among the 10 EPA regions across the country in utilizing Section 319 for land acquisition.

North Carolina received annual allocations of approximately \$4.6 million for Section 319, three quarters of which the state designates to competitively selected projects. In the FY 2003 grant cycle the program received applications totaling approximately \$9 million. Since the program's inception only a few awarded projects in the state have included land or conservation easement acquisition.

Direct Federal Grants

Farm and Ranch Land Protection Program (FRPP)

With passage of the new 2002 Farm Bill, the Federal government will have much greater ability to serve as a partner in the purchase of development rights (PDR), or conservation easements, on productive agricultural land. The new Farm Bill provides a ten-fold increase in funding available for the U.S. Department of Agriculture's Farm and Ranchland Protection Program, making \$600 million available between fiscal 2002 and 2007, up from \$53 million in the prior Farm Bill. Between 1996 and 2002, more than 108,000 acres were protected through PDR as a result of the program.¹¹

In fiscal year 2003, the FRPP will provide \$67 million in grants to states, local governments and nonprofit conservation groups to purchase conservation easements on agricultural land. Grants for 50 percent of the cost of a permanent conservation easement (PDR) will be awarded on a competitive basis, according to national and state criteria.¹²

FRPP in North Carolina¹³

Through FY 2002, \$3.1 million in FRPP funds have been awarded to purchase easements on approximately 3,706 acres of agricultural land in North Carolina. Due to growing interest from farmers and increased focus on farmland preservation by land trusts and local governments, requests for FRPP funds have increased dramatically in recent years, far outpacing the program's funding capacity. In FY 2003, partners in North Carolina requested \$3.3 million in FRPP funds. This request represents five percent of the total amount of FRPP funds available nationwide in FY 2003. North Carolina was allocated \$1.4 million in FY 2003.

Farm and Ranch Lands Protection Program – North Carolina Easements as of June 2003				
County	Acres	Total (\$)	Federal Payment	
			\$	%

¹⁰ EPA Region 4 includes Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee.

¹¹ 'Purchase of Development Rights: Conserving Lands, Preserving Western Livelihoods.' Western Governors' Association, the Trust for Public Land and National Cattlemen's Beef Association. June 2002. Page 19-20.

¹² Ibid.

¹³ USDA NRCS, North Carolina Farm and Ranch Lands Protection Program 2003.

Brunswick	268	520,000	260,000	50
Forsyth	343	706,382	331,144	47
Gaston	170	300,000	150,000	50
Randolph	264	395,745	197,183	50
Rowan	241	327,600	163,800	50
Watuaga	66	250,000	125,000	50
TOTAL*	1,352	2,499,727	1,227,817	49
*Totals do not include FY 2002 pending easements.				

In the past few years, many counties have enacted farmland preservation ordinances and established voluntary agricultural districts. A few counties have explored local funding options for purchasing conservation easements. Land trusts continue to play a major role in preserving farmland by identifying potential participants, supplying matching funds for FRPP grants, and acquiring and monitoring easements.

Forest Legacy Program (FLP)

The Forest Legacy Program was established in 1990 to provide federal money to secure conservation easements on forest land. States must first qualify before agencies or organizations within that state are eligible for funds. State or local governments or private sources must provide at least a 25 percent match. The program has increased from \$5 million in FY 1992 to \$65 million in FY 2002. There are currently 32 states enrolled in the program

Forest Legacy funding for FY 2004 was authorized \$71.9 million, which is a \$3.6 million increase over the FY 2003 allocation. For 2004, thirty-two states have already prioritized a list of projects totaling \$285,000,000, so it is clear that the demand for the program still outstrips the current funding. There are two main concerns with future funding. The first is that more and more states have joined the program, so while funds have increased over the years, more states are sharing those funds. The second is that when significant funds are utilized for fighting fires in the West, this decreases the funds available for Forest Legacy.

North Carolina's Assessment of Need (approved in 2000) focuses on the importance of maintaining working forests as part of current and future landscapes. There are eight Legacy Areas across the state. According to the USDA, as of September 30, 2002, there were two projects completed in the state, totaling 2,341 acres and costing \$4 million in Forest Legacy payments.

Urban Park and Recreation Recovery Program (UPARR)

The Urban Park and Recreation Recovery Program was developed as the urban component to the Land and Water Conservation Fund in 1978. UPARR grants are given to eligible cities and counties and are meant to assist disadvantaged areas. The grants fund rehabilitation and planning for recreational services in urban areas. From the program's inception in 1978 to 2002, it has distributed approximately \$272 million for 1,461 grants to local jurisdictions in 43 states, the District of Columbia and Puerto Rico. A local match of at least 30 percent is required for most grants. Appropriations for this program have varied widely from a high of more than \$60 million in 1980 to zero dollars in 2003. Eight cities in North Carolina have received grants for a total of \$1.9 million. This is the 16th lowest total dollar award among the participating states.

North American Wetlands Conservation Act (NAWCA)

The North American Wetlands Conservation Act was passed in 1989 to acquire, restore or enhance wetland ecosystems for waterfowl and other migratory birds. The program is administered by the U.S. Fish and Wildlife Service. There are standard grants and small grants – standard grants are from

\$51,000 to \$1 million dollars and small grants are for up to \$50,000. The grants are available for private or public agencies in the U.S., Canada or Mexico. There is a 1:1 grant match requirement.

The NAWCA program has grown in size from \$15 million in 2000 to \$37.5 million in FY 2004. The projects are approved at the national level. In December 2002, Congress reauthorized appropriations for the Act through FY 2007, reflecting its and the public's support of the Act's goals. Congress increased the appropriation *authorization* to \$55 million in 2003, with \$5 million appropriation increases to occur annually until FY 2007, when the appropriation cap will be \$75 million (actual appropriations are determined each year). The southern states have been the most effective at applying for NAWCA grants. Between 1991 and 2002, North Carolina was awarded NAWCA grants totaling roughly \$1.7 million for six projects to protect more than 6,000 acres.

Transportation Efficiency Act (TEA)

The federal transportation program provides states with funding for transportation projects. States are allocated funds based on a combination of population, transportation systems, miles of roads and other factors. Approximately 10 percent of those funds are allocated for enhancement projects under the Transportation Efficiency Act, sometimes called the Transportation Enhancement program. Ten percent of the transportation dollars needs to be used on average over the life of the Bill, not year to year. These enhancement projects include historic preservation, rails to trails programs, acquisition, transportation museums, water pollution mitigation and scenic beautification. All projects must be related, in some way, to transportation. In each state, regional coordinators recommend projects to be approved at the state level. The federal government provides 80 percent of the funds and the municipalities need to contribute a 20 percent match. The federal government gives final approval to the projects and distributes the funds directly to the municipalities or nonprofits.

Since 1991, North Carolina has received nearly \$200 million from this program. In 2003, the state is estimated to receive \$22.9 million. A detailed breakdown of how the state spends these funds is not available, and so the level of funding for land acquisition is unknown. The Division of Bicycle and Pedestrian Transportation receives approximately \$4.9 million for implementation of greenways and other bicycle and pedestrian projects.

Direct Federal Acquisition

Federal land holdings represent a significant component to North Carolina's system of protected natural areas including parks, forests and wildlife refuges. However, federal programs should not be expected to make significant contributions towards the state's million-acre conservation goal as the number and size of current federal acquisitions is relatively small.

Department of Defense

A recent initiative, "The Readiness and Range Preservation Initiative"¹⁴ by the Department of Defense calls for acquisition of additional lands to prevent encroachment on military installations and to protect land in a natural state surrounding the bases as a means of minimizing conflicts with neighboring communities. For example, at Travis Air Force Base in California, both the local community of Fairfield and The Nature Conservancy are buying important undeveloped property adjacent to the base, which will preserve the area's natural heritage, also protecting Travis' ability to expand in the future. At present, the Pentagon is still formulating its plan for which bases will be

¹⁴ <https://www.denix.osd.mil/denix/Public/Library/NCR/Conf02/conf02.html>

selected for participation. Support of the local base commander is considered an important factor in selection.

In 2003, the North Carolina Advisory Commission on Military Affairs completed an analysis of opportunities and threats to the state's military bases. The Commission found that "the number one training and operational readiness concern of North Carolina military bases is urban encroachment around the installations. Encroachment jeopardizes training and readiness because it forces bases to make compromises on when and where they train, and with which weapon systems..." In a letter of March 25, 2003 to Governor Easley the Commission made six recommendations to protect our bases from encroachment, including "acquisition of critical property within buffer areas and beyond..."

There are two large military installations in North Carolina: Fort Bragg Military Reservation located outside of Fayetteville, and Camp Lejeune Marine Base on the coast and several smaller military sites. The state's conservation trust funds are potential tools to acquire buffer areas and to reduce encroachment around our military bases. Recently, the CWMTF and NHTF partnered with The Nature Conservancy, the NC Wildlife Resources Commission, and the US Marine Corps to acquire the 2500-acre Beck tract adjacent to Camp Lejeune in Onslow County. CWMTF financed acquisition of the wetlands and riparian areas on the property; NHTF financed acquisition of the uplands. State agencies provided half of the funds; the US Marine Corps, the other half.¹⁵

Land and Water Conservation Fund Federal

The Land and Water Conservation Fund (LWCF) provides funding for federal agencies (Fish and Wildlife Service, Forest Service, National Park Service, and the Bureau of Land Management) to add land to existing parks, forests and refuges. This funding provides the bulk of the money available for this purpose.

Fish and Wildlife Service

The National Wildlife Refuge System of the U.S. Fish and Wildlife Service (FWS), established over 100 years ago, has grown to nearly 95 million acres. It now includes 540 refuges and more than 3,000 waterfowl protection areas spread across the 50 states and several U.S. territories. In North Carolina, there are 11 wildlife refuges comprising roughly 424,000 acres, all but one of which are located in the northeastern coastal portion of the state. In 2002, the FWS added 1,250 acres to the system in North Carolina.

Department of Agriculture

The USDA Forest Service comprises 155 national forests, 20 national grasslands, 5 national monuments, the National Tallgrass Prairie, and 6 land utilization projects. These units are located in 44 states, Puerto Rico, and the Virgin Islands, and encompass over 192 million acres. There are four national forests in North Carolina covering roughly 1.2 million acres. The Pisgah and the Nantahala Forests on the state's western border make up the bulk of the system with more than 500,000 acres each. Uwharrie National Forest (50,183 acres) is located in Montgomery County, between Charlotte and Fayetteville. Croatan National Forest is located on the coast, east of Jacksonville. The Forest Service has added approximately 2,400 acres to the system in North Carolina since 2001.

¹⁵ Source: <http://www.cwmtf.net/militarybasememo.htm>

National Park Service

The National Park Service (NPS) owns nearly 400,000 acres in ten national parks in North Carolina. Most of the NPS land is in the far western portion of the state and includes the Great Smoky Mountains National Park and the Blue Ridge Parkway and Appalachian Trail. NPS has partnered with Conservation Trust for North Carolina to acquire land and easements to protect the view along the Blue Ridge Parkway.