



Legislative Fiscal Bureau

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November 12, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Outside of Boundary Acquisition -- Agenda Item I

The 2013-15 biennial budget act (2013 Act 20) reduced stewardship program authorized bonding authority by \$63.5 million and made a number of program modifications. One provision specifies that DNR may not acquire any land, with stewardship program funds, outside the boundaries of projects established on or before May 1, 2013, except by approval of 12 members of the Joint Committee on Finance.

As created by 2013 Act 20, section 23.0917(8)(g) of the statutes specifies that, unless the Joint Finance Committee approves the land acquisition, beginning July 1, 2013, the Department may not obligate any moneys from the stewardship program for DNR to acquire land that is outside a project boundary. The Act defines a "project boundary" under this section as the boundary of a project established by the Department on or before May 1, 2013. Under this provision, a land acquisition is approved by Joint Finance if 12 members of the Committee vote to approve the purchase. This is the first DNR request under this procedure.

REQUEST

The Department of Natural Resources requests approval to utilize up to \$221,800 in stewardship program land acquisition funds to purchase 17.04 acres located outside a project boundary in the Town of East Troy, Walworth County from Honey Creek Estates, LLC. The proposed land purchase was approved by the Natural Resources Board on June 25, 2014.

Notification of the proposed purchase was received by the Committee's Co-Chairs on September 25, 2014. Unless 12 Joint Finance members vote to approve the acquisition, the request would be considered denied and the Department could not utilize stewardship program funds to make the proposed purchase.

ANALYSIS

The purchase price of the proposed 17.04 acre parcel is \$217,300, with an additional \$4,500 in estimated miscellaneous costs (appraisal costs, title insurance, and closing fees) for a total requested stewardship acquisition cost of \$221,800. DNR would acquire the parcel from Honey Creek Estates, LLC. The land would be purchased for the Department's Streambank Protection Program to be included in the Honey Creek Streambank Protection Area. Under the Streambank Protection Program, DNR acquires land (in fee title or through a conservation easement) and awards grants to eligible non-profit conservation organizations (NCOs) to protect the water quality and fish habitat of streams.

While the proposed parcel is outside of the current acquisition boundary, the Department indicates it is critical to blocking in the land for public outdoor recreational use. According to the Department, acquisition of the 17.04 acre Honey Creek Estates parcel would provide a nearly continuous block of approximately 735 acres of state-owned land (including fee title and easement) which would ensure that the land can be managed as a large block of wetland and floodplain land. The DNR property would be open for public recreational use for all five nature-based outdoor recreational activities (hunting, fishing, trapping, hiking, and cross-country skiing) as required by section 23.0916 of the statutes. The block of land consists of 260 acres of Department of Transportation (DOT) wetland mitigation land and more than 458 acres of current DNR ownership (fee title and easement) within and adjacent to the boundary of the Honey Creek Streambank Protection Area. DNR indicates that the DOT wetland mitigation site may be transferred to DNR in the future and consolidated into the Honey Creek Streambank Protection Area through the DNR property master planning process. According to the DNR, blocking existing DNR ownership and the DOT wetland mitigation site would improve management capabilities, decrease boundaries requiring posting, reduce neighbor conflicts, and improve the public recreational use of the existing state land. Additionally, DNR indicates that the increased upland acreage will provide nesting habitat for waterfowl, grassland birds, and reptiles, including the state threatened Blanding's turtle. The property's sandy soils are a high groundwater recharge area (water moves from surface to groundwater) that help sustain water quality and water flows to Honey Creek. Further, DNR indicates that protection of the adjacent large wetland complex is important for wetland-dependent birds including rails, bitterns, sedge and marsh wrens, swamp sparrow, yellow warbler and sand-hill cranes.

In addition, DNR indicates that the entire 735 acre block of land, including the calcareous Honey Creek Sedge Meadow, contains important plant species such as lesser fringed gentian, downy willow-herb, beaked spike-rush and several other endangered plant species and species of special concern. The parcel includes seven acres of land referred to as part of the Thiede Road Tamarack Swamp, a natural area of county or regional significance. According to the Department, acquisition of this particular seven acres will provide management opportunities to reduce invasive species on the site.

The parcel contains 8.5 acres of cropland designated as follows: 0.5 acre prime farmland, 6.5 acres farmland of statewide significance, and 1.5 acres as not prime farmland. The site is highly sandy with high groundwater recharge for the associated wetlands and Honey Creek, and the site is

currently zoned to allow two residences. DNR indicates that cropping is therefore not considered to be a long-term local and county zoning priority. The cropland is currently leased to a local farmer and the Department indicates the lease will continue through at least the 2015 cropping season.

One appraisal was commissioned for the property by the Department. The appraisal was completed in March, 2014. The appraisal utilized the market approach which involves evaluating similar properties that recently sold in comparison to the property being appraised, with adjustments made to the sale prices of the comparison properties to reflect differences that may affect the per acre value (including size, topography, location, water amenities, time of sale, and access). The appraisal utilized the market approach to establish a final value of \$205,000 for the parcel which includes two adjacent lots. Lot 1, which consists of 5.15 acres was valued at \$110,000 and Lot 2, which consists of 11.89 acres was valued at \$130,000. The appraiser then utilized the market value approach to determine an estimated value for the two parcels together (17.04 acres) of \$205,000.

The property is zoned C-1 (Lowland Resource Conservation District), C-2 (Upland Resource Conservation District) and C-4 (Lowland Resource Conservation District) by the Town of East Troy. Lot 1 is zoned C-1 and C-2, and Lot 2 is zoned C-1, C-2, and C-4. The appraiser notes that C-1 and C-4 zonings do not permit any development, but C-2 zoning permits residential development with a minimum lot size of five acres. According to the appraiser, each of the two lots would permit one single-family residence. The appraiser notes that the overall market conditions in the Town of East Troy (where the parcel is located) and Village of East Troy are considered generally weakened but stable after a period of decline and are expected to remain relatively stable with slow growth given the rural makeup of the surrounding area yet its close proximity to major transportation routes and the Milwaukee metropolitan area. Also noted are the many local recreational uses augmented by the recreational amenities of the area including Potters Lake located less than one mile northwest of the subject location, Turtle Pond located approximately two miles northwest of the subject location, Army Lake located about two miles west of the subject property, and Lake Beulah (one of the larger recreational use lakes in the area) located about two miles west to northwest of the subject.

For Lot 1, the appraiser used four sales which were considered the most recent sales of parcels with similar highest and best use (as a single family home site) that would also be considered by a typical buyer in the subject market. Sales were made in 2013 and 2014 and were all located within 13 miles of the subject property, were of similar shape, and had fairly similar topography. An adjustment was made for location (the fourth sale was located in a less desirable area for single-family home sites than the subject property). The sales indicated a wide range of adjusted sale prices per acre from \$13,994 to \$21,660, with a mean adjusted sale price per acre of \$17,496 and a median adjusted sale price per acre of \$17,165. The appraiser noted that both parcels were, at the time of appraisal, currently listed for sale (Lot 1 was listed at \$119,900 and Lot 2 at \$139,900) and they had been on the market for approximately four months. Lot 1, the smaller parcel, had received more interest, and the appraiser notes that the seller had reportedly received an offer for the smaller lot of \$110,000 which the seller did not counter as they were interested in selling both lots to DNR. The appraiser concluded that the recent offer of \$110,000 (\$21,359 per acre) was a good indicator of the price a buyer would be willing to pay for the property and fell

within the range of recent sales. Therefore, the appraiser estimated the value of the property at \$110,000.

For Lot 2, four sales were also utilized and again the sales were made in 2013 and 2014 and were located within 11 miles of the subject parcel. Adjustments were made for location (the subject parcel was considered less desirable than some of the parcels due to its location near a building owned by DNR that the Department utilizes for storage and hunter safety education, and one of the sales was located in a less-desirable area than the subject property), topography (while the topography of the subject parcel varies from gently rolling open land with approximately 56% wooded wetland, three of the four sales did not include similar wetland which would typically sell for a lower price per acre), and shape (one of the sale properties was highly irregular and would require a long driveway at additional expense to the buyer). The sales indicated a range of adjusted sale prices per acre from \$7,547 to \$11,106, with a mean adjusted sale price per acre of \$9,605 and a median adjusted sale price per acre of \$9,884. The appraiser noted that one of the sales was highly similar in topography to the subject parcel (with a large component of wetland similar to the subject) and concluded that a market value consistent with that particular sale (\$11,000 per acre) would be appropriate for the subject property. For the 11.89 acres of Lot 2, the total estimated market value was rounded to \$130,000.

To arrive at an estimated value for the two parcels together, the proposed 17.04 acre property, the appraisal again utilized the market value approach using four sales which occurred in 2012, 2013, and 2014. Adjustments were made for location (the DNR building referred to in Lot 2's analysis), zoning (unlike the subject property, all four sales did not contain two separate lots that could be divided and sold separately), topography (three of the sales lacked the significant wetland area of the subject property), road improvements (all four sales had paved road frontage which was superior to the primarily gravel frontage of the subject property), and land size (two of the sales varied significantly in size from the subject). The sales indicated a range of adjusted sale prices per acre of \$9,056 to \$12,413, with a mean adjusted sale price of \$10,359, and a median adjusted sale price per acre of \$9,983. Again, one sale stood out to the appraiser as most comparable to the subject in topography, which at \$12,000 per acre was deemed most appropriate as an estimate of value for the subject property, rounded to \$205,000. The appraiser noted that, while the total combined value of the two individual parcels was estimated at \$240,000, the market value of the two lots to one seller was \$205,000. This reflects a bulk discount of 15% which the appraiser viewed as reasonable. A DNR appraisal review agreed that the 15% discount was reasonable and approved the estimated value of \$205,000. The Department indicates that they made a verbal offer to the seller of \$205,000 that the seller indicated he would not accept as he had already received an offer on one of the parcels (at \$110,000) and he felt he would likely be able to sell the other parcel for close to list price (\$139,900). After further negotiations, DNR determined that a discount of approximately 10% from the \$240,000 appraised value as two separate lots would still be reasonable, and settled on a \$217,300 price for the property.

The proposed parcel is partially assessed as agricultural use land with a total assessed value of \$153,200 for the 17.04 acre parcel. Property taxes paid on the two parcels totaled \$2,400, but the appraisal notes that any change in the use of the property could trigger a significant increase in the assessed value. Annual aids in lieu of property tax payments on the property would be expected at

a similar amount although the Department's request estimated aids in lieu of property taxes at approximately \$2,700 annually, in error.

DNR staff indicate that the \$217,300 purchase is the best price that could be negotiated for the parcel that has significant conservation and public recreational value and should be approved. On the other hand, the appraisal approved by DNR valued the property at \$205,000 and near the high-end of comparable sales. As an alternative, the Committee could approve up to \$209,500 from stewardship funds for the purchase (the \$205,000 appraised value, plus \$4,500 in closing-related costs). Under this alternative (#2), DNR would have to either renegotiate the sale price, use up to \$12,300 of other funds, or forgo the purchase.

ALTERNATIVES

1. Approve the Department's request to obligate up to \$221,800 in stewardship program land acquisition funds to purchase 17.04 acres located outside a project boundary in the Town of East Troy, Walworth County from Honey Creek Estates, LLC. (12 Yes votes required.)

2. Approve the Department's request, but specify that DNR may obligate no more than \$209,500 from the stewardship program (to reflect the appraisal value of \$205,000 and \$4,500 in miscellaneous costs) for the acquisition. (12 Yes votes required.)

3. Take no action (fewer than 12 affirmative votes on any motion approving the request). DNR may not utilize stewardship program funds to make the purchase.

Prepared by: Erin Probst