

AN EVALUATION

*Warren Knowles-Gaylord Nelson
Stewardship Program*

Department of Natural Resources

00-10

October 2000

1999-2000 Joint Legislative Audit Committee Members

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October 10, 2000

Senator Gary R. George and
Representative Carol Kelso, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Kelso:

We have completed an evaluation of grants awarded through the Warren Knowles-Gaylord Nelson Stewardship Program, as requested by the Joint Legislative Audit Committee. The program was created in 1989 to preserve natural resources and expand outdoor recreation opportunities and is administered by the Department of Natural Resources. Through fiscal year 1999-2000, overall Stewardship Program expenditures have been \$190.6 million, of which \$45.3 million, or 23.8 percent, has been expended for 974 grants to local governments and nonprofit conservation organizations to purchase or develop property.

In a sample of grant files we reviewed, the average appraised value on a per acre basis was \$2,802, which is 120.2 percent greater than the average local assessment for property tax purposes, which was \$1,272 per acre. We include recommendations for the Department to improve its procedures for reviewing appraisals, including obtaining its own independent appraisals for properties valued in excess of \$200,000, and prohibiting local government applicants from submitting appraisals that are commissioned and paid for by prospective sellers.

1999 Wisconsin Act 9 reauthorized the Stewardship Program for an additional ten years and provides annual bonding authority of \$46.0 million beginning in fiscal year 2000-2001, an increase from the \$23.1 million in general obligation bonding authority that had been allocated in each of the program's first ten years. However, it also restricts some grants to funding only "nature-based outdoor recreation." We have included a number of policy questions for the Legislature to consider in determining how this policy will be implemented and the effect it will have on the Aid to Local Parks grant category, which in the past has been the most utilized grant category.

We appreciate the courtesy and cooperation extended to us by the Department of Natural Resources. The Department's response is Appendix VII.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DB/ao

SUMMARY

The Warren Knowles-Gaylord Nelson Stewardship Program is the State's primary program for preserving natural areas for outdoor recreation and wildlife habitat. When first created by 1989 Wisconsin Act 31, the program was authorized \$250.0 million (which was reduced to \$231.0 million using only general obligation bonding authority in 1995 Act 27) over a ten-year period ending in fiscal year (FY) 1999-2000. 1999 Wisconsin Act 9 extended the program, now called Stewardship 2000, through FY 2009-10 with funding of \$46.0 million annually. The Department of Natural Resources, which administers the program, uses stewardship funds to directly purchase or develop property, and also to make grants to local governments and nonprofit conservation organizations (NCOs), such as the Nature Conservancy and the Ice Age Park and Trail Foundation, for purchase and development of property. Through FY 1999-2000, overall Stewardship Program expenditures have been \$190.6 million, of which \$45.3 million, or 23.8 percent, has been expended for 974 grants that have been awarded to local governments and NCOs.

Questions have been raised about the grant portion of the Stewardship Program, including whether excessive amounts have been paid for property and whether local governments and NCOs have complied with the cost-sharing requirements of the grants. In response to these concerns, and at the direction of the Joint Legislative Audit Committee, we reviewed a sample of grants awarded during the first nine years of the program and the Department's procedures for approving grants and establishing the costs it will share for purchases or development of property.

The Department determines grant amounts based on reviews of property appraisals provided by grant applicants, who typically contract with private appraisers for this service. Within our sample of 117 property acquisition grants, there were sufficient comparable records to compare the locally assessed value for property tax purposes of 74 properties with the appraised value that the Department used to make grant awards. The average assessed value, per acre, was \$1,272. In contrast, the average appraised value was \$2,802 per acre, or 120.2 percent greater. However, parcels with large acreage and small differences between assessed and appraised values can affect averages and mask larger differences when comparisons are made on a per property basis. When assessed and appraised values were compared on a per property basis, rather than a per acre basis, the average difference was 304.9 percent. Our sample was selected to include large grants and was not selected randomly. Therefore, the results cannot be projected to all grants.

According to Department of Revenue officials, a property's assessed value for property tax purposes may be below its appraised, or fair-market, value for several reasons. For example, the majority of local governments do not re-establish assessed values annually but often wait up to three years or more to reassess property. Additionally, demand for land in some areas is so great that it is possible for assessments to fall considerably below appraised value over a period of a few years.

While infrequent updates of assessed values and development pressure both can contribute to disparities between assessed and appraised values, they are not the only contributing factors. Some have questioned whether the Department's review and approval process serves to overstate the value of some properties. Therefore, we reviewed the Department's process to determine fair-market value and have made several recommendations to improve it, including:

- prohibiting staff in the Department from using appraisals paid for by the seller to determine a property's fair-market value;
- allowing staff in the Department to develop their own appraised value if they believe appraisals submitted by the grant applicant are not accurate; and
- requiring the Department to obtain its own appraisal for proposed grant land acquisitions over \$200,000.

To be eligible for stewardship grants, local government and NCO applicants are required to provide at least 50 percent of the land acquisition or property development costs as a match to stewardship grant funds, unless exceptional circumstances exist. We found the Department is correctly determining grant awards: in only two files—one for a \$1.4 million payment for the purchase of 1,000 acres along the lower St. Croix River, and one for a \$199,462 payment for the purchase of a portion of the Ice Age Trail outside the City of West Bend—did grants exceed more than 50 percent of the land acquisition costs. Both of these payments were approved by the Department through variances to administrative code requirements.

However, local governments and NCOs can meet match requirements by using cash; local fundraising efforts; and various non-cash contributions, such as in-kind services, donated labor, use of equipment, and land. Through such efforts, local governments can significantly limit, and in some cases avoid, using local tax funds for projects. While such practices may encourage local governments to support projects, some have suggested that when local tax funds are not used in the local

match, local governments have less direct interest in controlling project costs and ensuring that amounts paid for property are not excessive.

Currently, the Department's process for ranking grant proposals is designed primarily to compare grants among themselves in order to distribute program funds. The process does not, however, attempt to rank projects based on more subjective criteria by, for example, considering the proposed benefits in relation to cost or considering whether all of a proposed project's acreage is necessary for the stated purposes. In light of the potential that demand for grants will continue to exceed available funding, we have included an option that the Department consider developing grant-review criteria to evaluate whether, in some cases, a smaller parcel than originally proposed could meet a project's objectives.

We also reviewed files to determine whether only eligible costs were reimbursed. Although we did not find any ineligible costs being reimbursed, in 110 of 243 files we reviewed, information necessary for auditing the files was missing. Missing items included grant applications, reimbursement claims, and cancelled checks. Therefore, we have included a recommendation that the Department develop standard record-retention policies for grant files. Improved documentation would make external review of grant expenditures easier and would enable enforcement of use restrictions placed on the property.

In reauthorizing the Stewardship Program through 1999 Wisconsin Act 9, the Legislature almost doubled available funding and provided the Department and the Natural Resources Board with greater latitude in managing the program. However, it also restricted funding for some departmental and grant projects to be used only for "nature-based outdoor recreation," which the Legislature directed the Department to define. A definition was approved as an emergency administrative rule by the Natural Resources Board in August 2000. However, the effect of this definitional change on the types of activities to be funded in the future, especially with regard to Aid to Local Parks grants, is uncertain. In the original Stewardship Program, the Aid to Local Parks category was allocated more funding than any other grant category—\$2.25 million annually—and was the most utilized grant category.

An important policy question for the Legislature in reviewing the emergency administrative rule during the final rule-making process will be the issue of the "primary" purpose of a grant. For example, for development grants, questions may be raised about whether expenditures for the development of sports fields or playgrounds are entirely prohibited, or whether they are allowed if they do not constitute a majority of the planned expenditures. Similarly, for land acquisition grants, questions may also be raised about whether locally funded sports fields or facilities are prohibited from being sited on property acquired

with stewardship funds or whether such facilities can be sited if the majority of the land parcel is dedicated to nature-based activities such as hiking, bicycling, or wildlife observation. If the interpretation adopted allows non-nature-based activities if they constitute less than a majority of the costs or the size of the property, future projects in the Aid to Local Parks grant category may closely resemble past projects, and the restriction to nature-based outdoor recreation included in 1999 Wisconsin Act 9 could be rendered ineffective. Conversely, the greater the degree to which activities are restricted to nature-based outdoor recreation, the greater degree to which future projects will differ in content from past projects.

INTRODUCTION

The Warren Knowles-Gaylord Nelson Stewardship Program is the State's primary program for preserving natural areas for outdoor recreation and wildlife habitat. When first created by 1989 Wisconsin Act 31, the program was authorized \$250.0 million (which was reduced to \$231.0 million using only general obligation bonding authority in 1995 Act 27) over a ten-year period ending in fiscal year (FY) 1999-2000. 1999 Wisconsin Act 9 extended the program, now called Stewardship 2000, through FY 2009-10 with funding of \$46.0 million in bonding authority annually. The Department of Natural Resources, which administers the Stewardship Program, uses stewardship funds to directly purchase or develop property and to make grants to local governments and nonprofit conservation organizations (NCOs), such as the Nature Conservancy and the Ice Age Park and Trail Foundation, for purchase and development of property. Property development includes the purchase or repair of facilities such as toilet and shower buildings and campgrounds; the purchase and installation of playground equipment; and the construction of sports facilities, shelters, and picnic areas. For FY 1999-2000, the Department has allocated 19.5 full-time equivalent (FTE) positions for implementation of the Stewardship Program. Estimated salaries and fringe benefits for these positions, paid through various sources, totaled \$1.0 million.

Questions have been raised about the grant portion of the program, including whether excessive amounts have been paid for property and whether local governments and NCOs have complied with the cost-sharing requirements of the grants. In response to these concerns, and at the direction of the Joint Legislative Audit Committee, we reviewed a sample of grants awarded during the first nine years of the program, as well as the Department's procedures for approving grants and establishing the costs it will share for purchases and development of property. For comparison, we also reviewed 61 files of land purchases made directly by the Department. In addition, we interviewed staff from the Department of Revenue, as well as individuals in six midwestern states who administer programs similar to Wisconsin's. From FY 1990-91 through FY 1999-2000, Wisconsin's Stewardship Program awarded 974 grants to local governments and NCOs, for which spending totaled \$45.3 million.

Stewardship Funding and Expenditures

In the past ten years, total program expenditures were approximately \$190.6 million.

The program has 12 primary categories through which funding is allocated by the Legislature. Each of the 12 categories is established by statute, and each has its own programmatic focus and funding eligibility requirements. Appendix I describes each category, as well as acres purchased and program expenditures in each category. Appendix II provides program expenditure information by fiscal year. The number of

Table 1

Stewardship Program Expenditures FY 1990-1991 through FY 1999-2000

<u>Category</u>	<u>Ten-Year Bonding Authority</u>	<u>Program Expenditures*</u>	<u>Percentage Spent</u>
General Land Acquisition	\$ 70,800,000	\$ 68,228,358	96.4%
General Property Development**	35,000,000	22,779,533	65.1
Aid to Local Parks	22,500,000	18,129,966	80.6
Lower Wisconsin State Riverway***	20,000,000	19,115,000	95.6
Urban Rivers****	15,200,000	10,957,735	72.1
Natural Areas	15,000,000	13,310,387	88.7
Habitat Areas	15,000,000	11,144,820	74.3
Stream Bank Protection	10,000,000	7,978,485	79.8
State Trails	10,000,000	6,290,982	62.9
Urban Green Space	7,500,000	6,437,857	85.8
Natural Areas Heritage	5,000,000	3,515,894	70.3
Ice Age Trail	<u>5,000,000</u>	<u>2,759,469</u>	55.2
Total	\$231,000,000	\$190,648,486	82.5

* Program expenditures do not include funds encumbered but not yet spent. As of June 30, 2000, the Department had all but \$1.2 million of the remaining funds encumbered or expended.

** A total of \$605,677 has been expended from this category toward grants to "Friends groups," which are discussed under General Property Development in Appendix I.

*** Two land acquisitions that are not a part of the riverway have been made with funding from this category: \$3.6 million for the purchase of 3,291 acres for the Willow Flowage, and \$2.1 million toward the purchase of 1,523 acres in Lincoln County for Grandfather Falls-Bill Cross Rapids. The funding for each is specifically authorized in statute.

**** The Urban Rivers grant category was created in FY 1992-1993. Its funding, \$15.2 million, was deducted from the general land acquisition category. The bonding authority for the other ten categories has remained unchanged since the inception of the program.

acres the Department purchased with stewardship and federal funds, by county, is provided in Appendix III. As shown in Table 1, approximately \$190.6 million, or 82.5 percent of the program's ten-year bonding authority, had been expended at the end of FY 1999-2000. As of June 30, 2000, the Department had encumbered or expended all but \$1.2 million.

As shown in Table 2, most program expenditures have been for the acquisition of property. Through December 1999, the Department had purchased, both outright and through conservation easements, 144,299 acres for ownership by the State. The Department does not centrally record the number of acres purchased by local governments and NCOs using stewardship grants.

Table 2

Acres Purchased for State Ownership by Stewardship Category*

<u>Category</u>	<u>Acres Purchased**</u>	<u>Direct Expenditures</u>
General Land Acquisition	75,253	\$ 63,782,534
General Property Development	Not applicable	-
Lower Wisconsin State Riverway***	24,039	17,592,554
Natural Areas	20,035	9,430,775
Stream Bank Protection	10,461	6,374,161
Habitat Areas	9,041	7,655,882
Natural Heritage Areas	5,033	3,366,968
Ice Age Trail	437	354,000
State Trails****	<u>0</u>	<u>0</u>
Total	144,299	\$108,556,874

* Includes only stewardship funds for acquisitions by the Department. Excludes miscellaneous costs, departmental development activities, expenditures for grants, and federal funds.

** Acres purchased include land and conservation easements purchased by the Department with stewardship funds. Federal funding of \$11.3 million was used to purchase an additional 9,791 acres. The acres purchased do not include acres purchased by local governments and NCOs with stewardship grants because the Department does not centrally record this information.

*** Two land acquisitions that are not a part of the riverway have been made with funding from this category: \$3.6 million for the purchase of 3,291 acres for the Willow Flowage, and \$2.1 million toward the purchase of 1,523 acres in Lincoln County for the Grandfather Falls-Bill Cross Rapids. The funding for each is specifically authorized in statute.

**** Although funding for the State Trails category was dedicated by the Department toward development projects, 3,459 acres for trails were acquired with \$2.1 million in funding from the General Land Acquisition category.

Six midwestern states we contacted—Illinois, Indiana, Iowa, Michigan, Minnesota, and Ohio—have land acquisition programs. Appendix IV lists both the major programs in each state as described by state officials and in a report by the National Governors Association, and grant programs that represent a wide variety of funding sources, program uses, and eligible recipients. Appendix V shows the number of acres owned by each of the midwestern states we contacted, as well as acres owned by the federal government in each state.

The Legislature has enumerated \$10.9 million in Stewardship Program funding for nine specific projects.

While the Department generally makes decisions on which projects to fund and how funds should be allocated among projects, funding for special projects is periodically enumerated in biennial budget acts. There were nine projects totaling \$10.9 million enumerated for the first Stewardship Program, as shown in Table 3. Of those nine enumerations, four provided funding for the Department to purchase land or construct improvements, four provided project funding for a local unit of government, and one provided funding for the Department and for a local unit of government.

Table 3

Stewardship Program Legislative Enumerations

<u>Enumeration*</u>	<u>Amount Allocated</u>	<u>Funding Recipient</u>
Monona Terrace	\$ 3,000,000	City of Madison
Grandfather Falls-Bill Cross Rapids	2,138,000	Department
Hank Aaron State Trail	1,360,000	Department and City of Milwaukee
Crex Meadows	250,000	Department
Horicon Marsh	250,000	Department
Riverfront State Park	173,763	City of Sheboygan
Flambeau Mine Trail	100,000	Rusk County
Upper Whiting Park	38,000	Village of Whiting
Willow Flowage	<u>3,600,000</u>	Department
Total	\$10,909,763	

* Includes 1999 Wisconsin Act 9 enumerations funded from the first Stewardship Program. In addition, 1999 Wisconsin Act 9 included five Stewardship 2000 program enumerations: up to \$125,000 to Florence County for the Keyes Lake Recreation Area Development; up to \$750,000 to the City of Racine for the Root River Pathway; up to \$96,500 to the City of Fort Atkinson for the Rock River riverwall; \$50,000 to the Department for a Rib Mountain chalet design study; and \$1.5 million to the Department for Milwaukee Lakeshore Park development.

The Joint Committee on Finance reviews stewardship projects with costs over \$250,000.

While the Department has the authority to determine the price it is willing to pay for land it buys and the total amount awarded for each grant, if a project or activity costs more than \$250,000, statutes require the Department to notify the Joint Committee on Finance of the proposed project. This requirement, in effect since December 31, 1995, provides the Committee a passive review period of 14 working days, after which the Department may act to purchase land or award a grant or, if there is an objection, the Committee must hold a hearing to review the proposed expenditure.

Stewardship Grants

As noted, through FY 1999-2000, \$45.3 million, or 23.8 percent, of the \$190.6 million in program expenditures has been for grants to local governments and NCOs. Table 4 shows the number of grants awarded in each of the Department’s five regions, the total amount awarded to each region, and the amount spent in each region through the end of FY 1999-2000. The two southern regions—South Central and South East—received 60.0 percent of the grant funds awarded.

Table 4

Grants by Region
FY 1990-91 through FY 1999-2000

<u>Region</u>	<u>Number of Grants Awarded</u>	<u>Percentage</u>	<u>Amount Awarded</u>	<u>Percentage</u>	<u>Amount Expended</u>	<u>Percentage</u>
South Central	213	21.9%	\$20,501,919	32.6%	\$14,301,551	31.6%
South East	210	21.6	17,215,874	27.4	11,750,388	25.9
North East	264	27.1	12,950,386	20.6	9,656,846	21.3
West Central	155	15.9	6,866,513	10.9	5,258,887	11.6
Northern	<u>132</u>	<u>13.5</u>	<u>5,377,487</u>	<u>8.5</u>	<u>4,347,345</u>	<u>9.6</u>
Total	974	100.0%	\$62,912,179	100.0%	\$45,315,017	100.0%

Grants are provided to local governments, NCOs, and Friends groups.

As shown in Table 5, the Department awards grants to local units of government through 4 of the 12 stewardship categories and to NCOs through 8 categories. In addition, the Department uses stewardship funds to make grants to Friends groups that undertake development projects on property owned by the Department, such as state parks.

Friends groups differ from NCOs in that they are incorporated specifically to support departmental projects, while NCOs have broader incorporation purposes. Grants to Friends groups were not included in our file review.

Table 5

Grant Award Eligibility

<u>Category</u>	<u>Local Units of Government</u>	<u>NCOs</u>
General Land Acquisition	No	No
General Property Development	No	No*
Aid to Local Parks	Yes	Yes
Lower Wisconsin State Riverway	No	No
Urban Rivers	Yes	Yes
Habitat Areas	No	Yes
Natural Areas	No	Yes
Stream Bank Protection	Yes	Yes
State Trails	No	Yes
Urban Green Space	Yes	Yes
Natural Heritage Areas	No	No
Ice Age Trail	No	Yes

* Grants may be awarded only to Friends groups. From FY 1990-91 through FY 1999-2000, a total of \$605,677 was expended for 118 grants to Friends groups.

Local governments and NCOs have been awarded 974 grants.

As shown in Table 6, there was a total of 974 grants to local governments and NCOs from FY 1990-91 through FY 1999-2000, with an average grant award of \$64,592. Local units of government received 855 grant awards totaling \$48,553,566, and NCOs received 119 grant awards totaling \$14,358,613. While total grant awards have been \$62,912,179, expenditures through June 2000 have been \$45,315,017, both because not all expenses have yet been incurred and because, in some cases, actual eligible expenses were somewhat less than estimated in the grant award. Appendix VI includes grant expenditures, by county, made by the Department to local governments and NCOs.

Table 6

Number and Amount of Grants Awarded, by Type of Grant
(FY 1990-91 through FY 1999-2000)

<u>Type of Grant</u>	<u>Total Grant Award</u>	<u>Percentage of Total Award</u>	<u>Number of Grants</u>	<u>Percentage of Total Number of Grants</u>	<u>Average Grant Award</u>
Aid to Local Parks	\$23,750,402	37.8%	615	63.1%	\$ 38,619
Urban Rivers	16,344,747	26.0	136	14.0	120,182
Urban Green Space	8,108,815	12.9	94	9.7	86,234
Habitat Areas	4,289,824	6.8	40	4.1	107,426
Natural Areas	4,707,034	7.5	43	4.4	109,466
Ice Age Trail	3,175,303	5.0	18	1.8	176,406
Stream Bank Protection	2,513,304	4.0	26	2.7	96,666
State Trails	<u>22,750</u>	<u>0.0*</u>	<u>2</u>	<u>0.2</u>	11,375
Total	\$62,912,179	100.0%	974	100.0%	\$ 64,592

* Actual percentage is 0.04 percent.

As shown in Table 7, among the NCOs receiving the largest grant payments are the Ice Age Park and Trail Foundation, the Nature Conservancy, and Standing Cedars Community Land Conservancy.

Grant applicants must provide at least 50 percent of the cost of the land or development activities.

To be eligible for stewardship grants, local governments and NCOs are required to provide at least 50 percent of the land acquisition or property development costs as a match to stewardship grant funds. State statutes and administrative code indicate the local government share of the cost may be from any combination of:

- cash or in-kind contributions from the applicant;
- private-party donations made to the applicant; and
- federal, state, and local funds. However, another grant from the Stewardship Program may not be used as part of the applicant's share.

NCOs may use similar funding sources for their share except they cannot use other state funds.

Table 7

NCOs with Largest Grant Expenditures

	<u>Location</u>	<u>Amount Expended</u>
Ice Age Park and Trail Foundation	Statewide	\$2,365,052
Nature Conservancy	Statewide	1,596,587
Standing Cedars Community Land Conservancy	Polk County	1,534,563
Ozaukee Washington Land Trust	Ozaukee and Washington Counties	921,139
Cedar Lakes Conservation Foundation	Washington County	576,458
Ridges Sanctuary	Door County	351,373
Philadelphia Community Farm	Polk County	310,922
Wings Over Wisconsin	Dodge County	309,400
Waukesha Land Conservancy	Waukesha County	280,368
Wisconsin Farmland Conservancy	Statewide	235,805

To determine whether stewardship grant requirements have been met and how the Department establishes the amount it will fund, we reviewed a sample of 243 of the 974 grants awarded during the first nine years of the program and reviewed the Department's procedures for approving grants. Grants were selected from each of the Department's five regions and from a variety of local and NCO grant recipients. We also selected several of the grants that received greater amounts of funding, such as the \$3.0 million grant to the City of Madison for the Monona Terrace project. Our sample represents 24.9 percent of all grants made to local governments and NCOs, and 52.1 percent, or \$23.6 million, of total grant funds expended.

LAND ACQUISITION COSTS

In determining a fair price for property acquired with stewardship funds, the Department must address competing concerns. On the one hand, it is expected the Department or the local government will pay the seller a fair-market value for the property to prevent a public perception that the government is taking an owner's property without paying just compensation. Out of concern over such a perception, statutes prohibit the Department from funding a local project where condemnation procedures are used to compel a sale. On the other hand, it is expected the Department will not pay more than the fair-market value of property, out of concern both over the use of public funds and that high prices will inflate the value and taxes on surrounding private property. Balancing these competing concerns is complicated by the difficulty of precisely determining the fair-market value of pieces of property that are unique or under significant development pressure. The Department's current procedures for determining grant amounts are based on reviews of appraisals conducted by appraisers in the private sector. We reviewed grant files in each of the Department's five regions to determine the relationship between properties' assessed values for local tax purposes, the appraised value prior to sale, and the actual sale price.

Assessed Values

Of the 243 grants we reviewed, 117 were to purchase property. There were 156 separate properties associated with the 117 grants. Grant files for only 74 of the 156 properties contained comparable data on both the assessed value and the appraised value approved by the Department. For the other 82 properties, either the Department did not maintain information on both the assessed and appraised values or the information was not comparable. We were also able to review the files of 47 properties purchased by the Department that included comparable data on both the assessed value and the approved appraised value.

As shown in Table 8, the difference between the locally assessed value for property tax purposes and the appraised value approved by the Department for the grants in our sample was 120.2 percent per acre. As noted, while our sample included 52.1 percent of all grant expenditures, the sample was selected to include large grants and was not selected randomly and, therefore, the results cannot be projected to all grants.

Table 8

Average Assessed and Appraised per Acre Values

	<u>Assessed</u>	<u>Appraised</u>	<u>Percentage Difference</u>
Grant acquisitions (74 properties)	\$1,272	\$2,802	120.2%
Department acquisitions (47 properties)	586	1,193	103.5

Comparing averages can mask the broad range in assessed and appraised values among the properties we reviewed. In our sample, nine properties had appraised values in excess of \$100,000 per acre, while seven properties had appraised values of less than \$1,000 per acre. For example:

- a 0.09-acre property (3,920 square feet) in the City of Wauwatosa, in Milwaukee County, was appraised at \$115,000, or the equivalent of \$1,277,778 per acre;
- a 0.88-acre property in the Town of Bailey’s Harbor, in Door County, was appraised at \$400,000 or the equivalent of \$454,545 per acre; and
- a 0.6-acre property in the City of River Falls, in Pierce and St. Croix Counties, was appraised at \$81,500, or the equivalent of \$129,365 per acre.

Conversely, some relatively larger properties in our sample were appraised at less than \$1,000 per acre, which is in part why the high values noted above are obscured in the averages shown in Table 8. For example:

- a 1,183-acre property in Brown County was appraised at \$393 per acre;
- a 433-acre property in Marquette County was appraised at \$693 per acre; and
- a 280-acre property in Adams County was appraised at \$400 per acre.

Comparing overall per acre averages can also mask larger differences between assessed and appraised values compared on a per property basis, because sizes of properties can vary so significantly. For example, as shown in Table 9, in half of the grant properties for which we had complete information, the appraised value approved by the Department exceeded the locally assessed value of the property by more than 100 percent. For the 74 properties we reviewed in our sample, the average difference between the appraised and the assessed value per property was 304.9 percent, compared to the average per acre difference in Table 8 of 120.2 percent.

Table 9

Difference Between Assessed and Appraised Values
(per property)

<u>Range</u>	<u>Grant Properties</u>
0 to 100%	37
101 and greater	<u>37</u>
Total	74

The range of differences between local assessments and the appraised values approved by the Department can be seen in the following examples:

- A 20-acre property in the Town of Scott, in Brown County, had an assessed value of \$15,200 and an approved appraised value of \$300,000, a difference of 1,873.7 percent.
- A 35-acre property in Washington County had an assessed value of \$17,576 and an approved appraised value of \$248,000, a difference of 1,311.0 percent.
- A 2.8-acre property in the Village of Ashwaubenon, in Brown County, had an assessed value of \$9,000 and an approved appraised value of \$124,000, a difference of 1,277.8 percent.

Conversely, for some properties in our sample, the appraised value was very similar to the locally established assessed value. For example:

- A 73-acre property in the Village of Wales, in Waukesha County, was assessed at \$181,539 and appraised at \$195,000, a difference of 7.4 percent.
- A 67.5-acre property in the Town of Genesee, in Waukesha County, was assessed at \$163,300 and appraised at \$175,000, a difference of 7.2 percent.
- A 1.7-acre property in the City of Onalaska, in La Crosse County, was assessed at \$58,000 and appraised at \$60,500, a difference of 4.3 percent.

For comparison, we reviewed a sample of property acquisitions made directly by the Department. For the 47 properties shown in Table 10 that were purchased directly by the Department, the appraised value exceeded the assessed value by more than 100 percent in 23 of the 47 cases.

Table 10

Percentage Difference Between Assessed and Appraised Values
(per property)

<u>Range</u>	<u>Department Properties</u>
0 to 100%	24
101 and greater	<u>23</u>
Total	47

On average, based on our sample, the difference between the assessed and the appraised value per property was 177.0 percent, compared to the 304.9 percent difference for grant purchases. Some examples of the differences between the assessed and the approved appraised value include the following acquisitions by the Department:

- for Newport State Park in Door County, where the assessed value for a 1.4 acre property was \$70,000 and the approved appraised value was \$360,000, a 414.3 percent increase;

- to provide public water access in La Crosse County, where the assessed value for a 0.3 acre property was \$10,000 and the approved appraised value was \$30,000, a 200.0 percent increase;
- to provide public water access in Saint Croix County, where the assessed value for a 1.2 acre property was \$45,700 and the approved appraised value was \$92,500, a 102.4 percent increase; and
- for state trail land in Lake Mills, Jefferson County, where the assessed value for a 1.0 acre property was \$85,900 and the approved appraised value was \$160,000, an 86.3 percent increase.

Reasons for Appraised Values Exceeding Assessed Values

Assessments may fall behind current fair-market value.

Although state statutes require that, except for agricultural property, real property be assessed at its fair-market value, the differences between assessed and appraised values for stewardship purchases are significant. According to Department of Revenue officials, a property's assessed value for property tax purposes may be below its market value for several reasons. First, the majority of local governments do not re-establish assessed values annually but often wait up to three years or more to reassess property. Additionally, demand for land in some areas is so great that it is possible for assessments to fall considerably below fair-market value over a period of a few years.

Another factor that may contribute to disparities between assessed and appraised values is that statutes do not direct the Department of Revenue to intervene in local assessments unless an entire major class of property is not assessed within 10 percent of full value at least once in the last four years. For example, when grouped together, the total assessed value of all residential properties in a city must be assessed within 10 percent of total market value, but individual properties may be outside that range. The Department of Revenue enforces the 10 percent requirement by monitoring assessed values each year. However, the Department of Revenue does not send a notice of noncompliance to the local government until after the fourth year. Only after the seventh year of noncompliance will Department of Revenue staff conduct a supervised reassessment of all property in the community. Therefore, Department of Revenue officials stated that although local governments report assessed values annually, these values may not reflect the current market value of a property each year, particularly in growing metropolitan areas or recreational areas where, over the past several years, market values have been increasing.

Baird Creek Project

An example of both out-of-date assessments and rapid development pressure can be seen in a 1999 Urban Rivers grant to the City of Green Bay to purchase 34.3 acres of vacant property along the Baird Creek Parkway, which currently consists of approximately 408 acres. The 34.3 acres had been designated as part of the parkway since 1976, when it was placed on the official street map of the City of Green Bay as parkland.

The Department approved a \$1.0 million appraisal for the Baird Creek property, although an earlier appraisal had established a value of \$420,000.

Based on a 1992 appraisal for \$126,900, the Department of Natural Resources had planned to provide \$63,450—approximately 50 percent of the land’s acquisition costs—in stewardship funds for acquisition of the property, the mortgage for which was held by a bank. It was expected that the City of Green Bay would provide the remaining 50 percent. However, the land was sold by the bank to a private party for \$155,000 in April 1993, several months before the Department and the City completed their grant agreement in August 1993. Staff of the City of Green Bay continued to pursue acquisition of the property from the new owners. An appraisal conducted in January 1995 set the value of the property at \$168,000. The next two appraisals were conducted within seven months of each other. The first, in December 1996, valued the property at \$420,000; the second, in July 1997, valued the property at \$1.0 million. The \$1.0 million appraisal, which was paid for by the property’s private owners, was approved by staff in the Department for the purpose of grant reimbursement.

The assessed value of the Baird Creek property was \$84,400 at the time of the stewardship purchase.

In contrast to the increases in the appraised value and the sale of the property for \$155,000 in April 1993, the assessed value of the property remained \$20,300 from 1991 through 1996, and then increased to \$84,400 in 1997. In this case, the assessed value established by the city bore little relation to either of two appraisals the city obtained, or to changes in the local real estate market that resulted in development pressure on the land.

In addition to the Baird Creek project, we noted a number of other examples of assessed values remaining relatively unchanged for years prior to a property’s acquisition through the Stewardship Program. For example:

- Thirty-nine acres in the Town of West Bend, in Washington County, were appraised at \$194,000 in 1993 for a grant to the Cedar Lakes Conservation Foundation; however, the assessed value in each year from 1987 to 1992 was \$17,500.

- Nineteen acres in the Town of Two Creeks, in Manitowoc County, were appraised at \$195,000 in 1998 for a grant to the town; however, the assessed value from 1992 to 1997 was \$15,690 or less.
- Twenty acres in the Town of Scott, in Brown County, were appraised at \$300,000 in 1994 for a grant to the Nature Conservancy; however, the assessed value had been \$15,200 since 1988.
- Fifty-one acres in the Town of Lafayette, in Walworth County, were appraised at \$173,500 in 1997 for a grant to the town; however, the assessed value both in 1995 and 1996 was \$23,100, which was a decrease from a prior assessed land value of \$27,650 when the property also included buildings.
- Three acres in the Village of Ashwaubenon, in Brown County, were appraised at \$124,000 in 1994 for a grant to the village; however, the assessed value remained \$9,000, as it had been since 1984.

In addition to their effect on the Stewardship Program, infrequent updates in assessed values also raise questions about fairness in local property taxes. For example, if an entire class of property is assessed at the appropriate aggregate value, but some individual parcels are significantly under-assessed, questions may be raised about fairness among members within that class.

Development Pressure Issues

Development pressure can cause the value of land to increase.

In addition to infrequent updates of assessed values, a second factor contributing to significant differences between assessed and appraised values is development pressure, which causes land value to increase. For example, property adjoining the Baird Creek parcel had not been developed when the City of Green Bay proposed the project in 1993. However, by the time of the purchase in 1998, adjoining property had been developed as residential housing, and sewer and other public utilities were available at the property line.

In order to estimate fair-market value, appraisers consider not just current use of the property, but also its potential use. For example, land in agricultural use that has development potential as residential property is appraised with that potential use in mind. In determining the potential highest and best use, appraisers are not restricted by the property's existing zoning classification if it is possible for the property to be rezoned.

Many more properties were appraised as having residential use than were zoned for this purpose.

To determine the degree to which land purchased through the Stewardship Program was under development pressure, we examined the zoning designations and appraisers' recommendations of highest and best use for land purchased through the grant program and land purchased directly by the Department. In our review of stewardship land acquisition grant files, we were able to identify both the existing zoning and the highest and best use recommended by the appraiser for 156 properties, as presented in the appraisal approved by staff in the Department. As shown in Table 11, while 64 properties were zoned residential or rural residential, appraisers recommended that the highest and best use of 103 properties was residential or rural residential. Conversely, while 46 properties were zoned agricultural, appraisers considered only 8 properties to have agriculture as their highest and best use. While appraisers may believe a property has a highest and best use other than as currently zoned, it is up to local zoning officials to consider changes.

Table 11

Comparison of Land-Use Designations for Grants

	<u>Primary Zoning</u>	<u>Appraiser's Recommended Highest and Best Use</u>
Residential/Rural Residential	64	103
Agricultural	46	8
Commercial/Industrial	19	16
Other/Do not know	18	8
Parkland/Conservancy	7	9
Recreation	1	11
Wetland/Floodplain/Shoreline	1	1
Forestry	<u>0</u>	<u>0</u>
Total	156	156

For comparison, we reviewed changes in land use designations for 64 properties acquired directly by the Department with Stewardship Program funds. We noted a similar change in the pattern of categorization when existing zoning was compared to the highest and best use recommended by the appraiser. As shown in Table 12, 12 properties were zoned residential or rural residential, but appraisers

recommended that the highest and best use of 34 properties was residential or rural residential. Similarly, 24 properties were zoned agricultural, but appraisers recommended that only 8 properties had agriculture as their highest and best use.

Table 12

Comparison of Land-Use Designations for Acquisitions by the Department

	<u>Primary Zoning</u>	<u>Appraiser's Recommended Highest and Best Use</u>
Agricultural	24	8
Residential/Rural Residential	12	34
Forestry	10	0
Other/Do not know	6	5
Commercial/Industrial	3	2
Parkland/Conservancy	4	1
Recreation	3	14
Wetland/Floodplain/Shoreline	<u>2</u>	<u>0</u>
Total	64	64

As was shown in Table 11 and Table 12, several parcels purchased through grants and directly by the Department were zoned parkland/conservancy. Such purchases have prompted questions about why stewardship funds were being used to purchase property that was already protected from development. Department staff argue such expenditures are appropriate because local zoning designations can change, especially as development pressure increases. In contrast, once property is purchased with stewardship funds, changes in the use of the property are prohibited by deed restrictions.

Appraisal Review Process

The way in which fair-market value is determined can also affect the land's value.

While infrequent updates of assessed values and development pressure can both contribute to disparities between assessed and appraised values, it cannot be concluded that they are the only contributing factors. Some have questioned whether the Department's review and approval process helps to overstate the value of some properties. Therefore, we reviewed the Department's process to determine fair-market value.

Currently, for direct purchases by the Department, either appraisers in the Department determine the value of the property, or the Department contracts with an independent licensed appraiser and staff in the Department review the contractor's work. For grants, the Department requires that the local government or NCO submit an appraisal from a licensed appraiser, which staff in the Department then review and approve. For both direct purchases by the Department and grants in excess of \$200,000, two appraisals are obtained.

Appraisal standards require appraisals to include a discussion of methodology, zoning, highest and best use, and local market conditions. The majority of appraisals use a "market approach" to determine the fair-market value, which is the price a buyer would be willing to pay and a seller would be willing to accept. The market approach is based on an analysis of recent sales of comparable properties in the area. For example, if an appraiser is to establish the fair-market value for a 100-acre wooded lot that is zoned for residential development and has a highest and best use of multi-family dwellings, he or she would research area property sales for multi-family dwellings with similar topography, size, and zoning. Next, the appraiser would adjust each of the comparable properties for differences in factors that affect cost, such as time elapsed since the sale, acreage, and quality of the land. Using the adjusted values of the comparable properties, the appraiser would then estimate the fair-market value of the property in question. It is common industry practice to use at least three comparable sales to determine the fair-market value of a property. In our file review, we found that, on average, appraisers used four comparable sales in determining property values.

Other methods of property appraisal that may be used include the "income approach" and the "cost approach." Because no income stream was generated by the majority of the properties we reviewed, nor was the construction new, these approaches are not relevant to most properties and they were rarely used in the files we reviewed.

Department staff may ask appraisers for additional information or have an additional appraisal conducted.

If an external appraisal does not meet appraisal industry and the Department's standards, staff in the Department may either request that the original appraiser make revisions or require the applicant to submit another appraisal. Through the review of 117 stewardship grant and 61 departmental land acquisition files, we noted that appraisers had been required to complete additional work on numerous occasions. We also noted that staff in the Department required an additional appraisal to be completed for two grant acquisitions and three departmental acquisitions.

Strengthening Appraisal-Review Procedures

The Department accepted an appraisal that was paid for by the sellers.

While many of the existing procedures for reviewing appraisals appear both reasonable and consistent with practices that Department of Revenue staff indicated should be used, we noted the Department of Natural Resources procedures do not prohibit an applicant from submitting an appraisal paid for by the prospective seller. In one of the more controversial grants funded by the Department in recent years, the Baird Creek grant, the second appraisal, which was more than twice the value of the first, was commissioned and paid for by the property sellers. Nevertheless, the Department approved the appraisal and used its established value for the grant award. Based on our discussions with Department of Revenue staff, and with four Madison lending institutions, it would appear that accepting appraisals commissioned and paid for by the seller undermines the independent nature of the appraisal process. Therefore, *we recommend the Department of Natural Resources establish a policy that prohibits local governments and NCOs from submitting appraisals commissioned or paid for by the seller as part of the stewardship grant application process.*

When two appraisals were conducted, the average difference between the appraised values was 21.8 percent.

For most of our sample of grant files, only one appraisal was conducted. However, when two appraisals were conducted, we found there was a significant difference in appraised values. Two appraisals were conducted for each of 35 properties, as is required for land valued over \$200,000, and the average difference between the two appraisals was 21.8 percent. Department of Natural Resources and Department of Revenue staff agree that any two industry professionals may arrive at different but legitimate estimates of the market value of the same property. For the 35 properties:

- in 2 instances the appraised values were the same;
- on 15 occasions, the Department of Natural Resources approved the higher appraisal; and
- on 18 occasions it approved the lower appraisal.

Because the disparity between some appraisals can be relatively significant, as shown in Table 13, the selection of one or the other can have a significant effect on either the buyer or the seller. For the grant program, the Department currently reviews both appraisals. If it is satisfied, it selects one or the other. If it is not, it can request additional information or request a third appraisal from the applicant.

Table 13

Difference Between Two Appraisals*

<u>Difference</u>	<u>Number</u>
0 to 15%	17
16 to 30	9
31 to 50	6
51 to 100	2
Over 100	1

* Based on a sample of 35 properties purchased with grant program funds.

The Department could allow staff to develop a blended value when more than one appraisal is submitted for grant awards.

In contrast, for purchases the Department makes directly, staff have additional flexibility in reviewing appraisals. They may select between the appraisals, or they may choose components from both in a blended approach that develops a different, third value. For example, for a property with widely differing appraisals conducted by private appraisers, staff in the Department may conclude that the low appraisal undervalues the property while the high one overvalues it. These staff, who are licensed or certified appraisers, have the option in such situations of selecting a value between the two extremes. It appears that such procedures enhance the Department's ability to establish an accurate market value for property. Therefore, we recommend the Department of Natural Resources modify its appraisal review process for grants and allow the staff to develop a blended appraised value when appropriate.

Increased participation by the Department could improve the accuracy of appraisals.

In all cases in our file review in which the acquisition price was estimated to be over \$200,000, two appraisals were obtained as required by the Department's procedures. With the creation of Stewardship 2000, the Department's practice of requiring two appraisals from local governments and NCOs was codified in statute. In light of the

Department's significant financial commitment when grants are large, it would appear that the State's best interests and the Department's ability to assess the quality of the applicants' appraisals would be enhanced if the Department also directly commissioned an appraisal. This practice would allow the Department to assign appraisals to existing staff or contract with private appraisers. Therefore, we recommend that for grants over \$200,000, the Department of Natural Resources independently obtain an appraisal separate from any appraisal submitted by grant applicants. The Legislature could then reduce from two to one the number of appraisals submitted by the grant applicants.

Comparison Between Appraised Value and Purchase Price

We compared the average appraised value and the actual purchase price for the 74 properties for which this information was complete in the grant files we reviewed. The average per acre purchase price was \$2,966, or 5.8 percent more than the average appraised value approved by the Department, which was \$2,802 per acre. However, the Department is authorized to reimburse only up to 50 percent of the approved appraised price, and we found no examples in our sample of grants in excess of 50 percent of the appraised value.

For a direct state purchase, the Department may spend more than the amount of its approved appraisal only if a greater amount is authorized by the Governor. Currently, all departmental land acquisitions over \$1,000 must be approved by the Governor before purchase. For direct purchases by the Department, the average approved appraised value was \$1,193 per acre, and the average purchase price was \$1,227 per acre, a difference of 2.8 percent.

GRANT PROGRAM PAYMENT PROCEDURES

Statutes and administrative code limit stewardship grants to local governments and NCOs to no more than 50 percent of eligible project costs. Questions have been raised about whether the Department has exceeded that limit on some projects. In our review of grant files, we reviewed the Department's process for determining eligible costs and ensuring local government applicants fully meet their grant match requirements.

Calculation of Grant Amount

Administrative code defines eligible costs differently for local governments and for NCOs. For local governments, eligible costs for an acquisition grant are either the appraised value as approved by the Department or the actual purchase price of land, whichever is lower; for development grants, eligible costs are the approved costs incurred to perform development activities. For NCOs, which are eligible to receive acquisition but not development grants, in addition to the appraised value or purchase price, costs such as the cost of appraisals, land surveys, relocation expenses, and recording fees may be included if approved by the Department.

In our sample of 243 grant files, 169 files contained complete grant award and payment information. As shown in Table 14, the Department correctly determined the grant award at 50 percent of eligible costs for the 81 development grant files we reviewed. In addition, we found that

Table 14

Grant Awards as a Percentage of Approved Total Cost

<u>Level of Payment</u>	<u>Development Grants</u>	<u>Percentage of Total</u>	<u>Acquisition Grants</u>	<u>Percentage of Total</u>	<u>Total Number of Grants</u>	<u>Percentage of Total</u>
Less than half	63	77.8%	39	44.3%	102	60.3%
Exactly half	18	22.2	47	53.4	65	38.5
More than half	<u>0</u>	<u>0.0</u>	<u>2</u>	<u>2.3</u>	<u>2</u>	<u>1.2</u>
Total	81	100.0%	88	100.0%	169	100.0%

63 of the development grants and 39 of the acquisition grants received Stewardship Program funding for less than half of projects' final total costs. This typically occurred because the costs estimated when grants were awarded increased during the course of the land acquisition or the development activities, and the increase was paid by the grant recipient.

Two of 88 acquisition grants were for more than 50 percent of total costs:

- One grant helped purchase more than 1,000 acres along the lower St. Croix River. Department officials and staff of the nearby St. Croix National Scenic Riverway indicated the parcel was large, unspoiled, and provided unique natural areas and good habitat for wildlife. This is the largest Stewardship project undertaken by a local NCO to date, which made it difficult for the NCO, Standing Cedars Community Land Conservancy, to raise enough funds to pay its 50 percent share. The Department approved a variance to provide payment of \$1,401,161, or 75 percent of the total land acquisition cost of \$1,868,214. Payments were made through three grant types: Natural Areas, Stream Bank Protection, and Habitat Areas. NCO funds provided the balance of the cost.
- One grant funded the purchase of a portion of the existing Ice Age Trail outside the City of West Bend that had been privately owned. Again, the file indicates that neither the city nor the Ice Age Park and Trail Foundation was able to raise 50 percent of the total costs, and officials in the Department believed the property, which was under development pressure, was at risk of no longer being part of the trail because its two owners indicated their desire to sell. A variance was approved for the Department to pay \$199,642, or 75 percent of the appraised value of \$252,000, plus an additional credit and miscellaneous eligible costs of \$10,624. The payment was made from the Ice Age Trail grant program, and the Ice Age Park and Trail Foundation and the City of West Bend paid the balance of the cost.

These two grants were approved by the Department through its authority granted in s. NR 51.003, Wis. Adm. Code, which permits exceptions, or variances, to certain rules in specific grant programs for NCOs "if the Department determines that a variance is essential to effect necessary

grant actions [...] and where special circumstances make a variance in the best interest of the program.”

Reimbursement of Eligible Costs

After awards are made, local governments and NCOs receive their funds from the Department by submitting documentation indicating payment of costs approved in the grant award. We reviewed our sample of 243 grant files to determine whether any non-eligible costs were included in reimbursements. In our review, we found no instances of ineligible costs being reimbursed, and numerous instances of ineligible costs that had been submitted by local governments and NCOs for reimbursement being disallowed by the Department.

Local Government and NCO Match Requirements

The Department provides cash payments to local governments and NCOs for the Stewardship-funded portion of each project. However, local governments and NCOs may use a variety of cash and non-cash contributions for their 50 percent share of project costs. Concerns have been expressed that because it is possible for local governments to meet their match requirement using few local tax funds, some communities may have a decreased direct interest in controlling project costs and ensuring acquisition costs are not inflated.

Statutes and administrative code establish the types of contributions local governments and NCOs may use toward their match for each of the different grant categories. In general, match contributions can include cash, in-kind labor, materials, use of equipment, land, and easements. The administrative code also requires that all planned sources of the match be identified in the grant application. In our review of both acquisition and development grants, we noted numerous examples where local governments and NCOs met a substantial portion of their match requirement with various non-cash contributions. In addition, it is not uncommon for local governments and NCOs to use privately raised funds as their cash match. For example:

- The City of Marshfield was awarded a \$71,500 Aid to Local Parks grant to purchase land with an approved appraised value of \$143,000. The final purchase price was \$165,500, and the city used \$94,000 in donated funds, representing 100 percent of its required match.

- The Ridges Sanctuary, an NCO, was awarded a \$243,213 Urban Green Space grant to purchase land in Door County with an approved appraised value of \$484,000. The NCO used \$100,000 in donated funds toward its required match.
- The City of Green Bay was awarded a \$249,000 Urban Rivers grant to purchase land for the Baird Creek Parkway project with an approved appraised value of \$1.0 million. The city planned to pay its \$751,000 portion with local fundraising efforts and exchange of city property with the sellers.

Department staff and others argue that the use of non-cash contributions and local fundraising efforts help the Stewardship Program by reducing the reliance on local tax funds. They argue that in some cases, local governments may be less willing to support projects if they require significant local tax funding. On the other hand, as noted, some argue that for projects where there is limited reliance on local tax funds, local governments may be less concerned with high project costs or broad project scope.

The Department does not require documentation of cash donations made after a sale is completed.

In addition to issues involving local fundraising and in-kind contributions, some staff in the Department indicated they were aware of sellers of property having made cash donations to local governments after sales had taken place. These staff indicated they did not believe it was the Department's responsibility to monitor such donations. Further, they believe that because the local government could use the donated funds for future land acquisitions, the practice constitutes good public policy independent of the effect on the Stewardship Fund. It should be noted, however, that it cannot be assumed that local governments that receive such after-sale donations will inevitably use them for future property acquisition, and the Department does not monitor that future use.

During the course of our file review, we found a file with documentation concerning a cash donation by a landowner to the City of Oshkosh. The city paid \$285,000 for a piece of land, which was the full appraised value as approved by staff in the Department, and the Department paid its 50 percent share, or \$142,500, to the city. The seller returned \$142,500 to the city in the form of a donation. In another file, we found documentation that the City of Port Washington paid \$173,000 for a piece of land. The Department paid its 50 percent share, or \$86,500, to the city and the seller returned \$59,000 to the city, which represents 68.2 percent of the city's share of \$86,500. In both cases, the plan for the contribution by the seller back to the city was developed prior to the sale of the property.

While statutes and code are silent on whether donations after sales are allowed, such donations highlight an inconsistency in program regulations for local governments and for NCOs. As noted, grant awards to local governments are based on the lower of the approved appraised value of the land or the purchase price. For example, if a landowner agrees to sell a parcel of land appraised at \$100,000 to a local government for the reduced price of \$50,000, the Department's grant would be 50 percent of the sale price, or \$25,000, and the local government's cost would be the remaining \$25,000. On the other hand, if the landowner sold that same \$100,000 parcel of land to an NCO for the reduced price of \$50,000, s. NR 51.03(1)(a), Wis. Adm. Code, allows the Department to pay up to 50 percent of the fair-market value, even if the sale price is less. In this case, the Department would pay \$50,000 and the NCO would pay nothing to obtain this land.

Current policy does not allow the Department to receive the benefit of donations made after a sale is completed.

The effect of this difference is that if a landowner sells a property at below-market value to an NCO, the entire benefit of the donated value is recognized by the NCO, while if a landowner sells property at below-market value to a local government, the local government and the Stewardship Fund equally share the benefit of the donation. However, in both the City of Oshkosh and the City of Port Washington examples noted previously, the local governments recognized the entire benefit of the donation while the Stewardship Fund recognized no benefit. In such situations, especially when the local government and the prospective seller discuss the donation before the sale, the seller could be viewed as having an interest in obtaining as high an appraised value as possible in order to maximize his or her tax deduction, while the local government has no direct interest in preventing an inflated appraised value because it incurs no direct cost in obtaining the property.

It may not be possible for the Department to formally monitor after-sale donations because of the difficulty of explicitly connecting a donation to a sale if there is a lapse of time. Therefore, it would appear the most effective action the Department could take is to ensure that appraisals submitted by local governments are reasonable and do not inflate the value of property. We believe the Department's ability to assess the reasonableness of appraisals of expensive properties will be enhanced if it implements our recommendation to independently obtain an additional appraisal.

Appropriateness of Grant Awards

Four Urban Green Space grants did not meet established criteria.

Stewardship Program statutes and rules indicate the purposes for which grant funds may be used for different types of grants. In our review, awarded grants generally met all the criteria in statutes and administrative code. However, we identified four Urban Green Space grants that were used to purchase land for activities not allowed under the established criteria.

Both s. 23.09(19)(c), Wis. States., and s. NR 50.165(6), Wis. Adm. Code, restrict eligibility for Urban Green Space grants to projects that:

- provide an open natural space within or in proximity to urban development;
- protect from urban development an area near or next to an urban area that has scenic, ecological, or other natural value; and
- provide land for noncommercial gardening to be used by urban-area residents.

However, 4 of the 23 Urban Green Space grants we reviewed were used to purchase land for uses that included ball parks, swimming pools, soccer fields, basketball and volleyball courts, and a water park complex. These sports-related activities do not meet the eligibility criteria. As shown in Table 15, the grant amounts for these four projects totaled \$409,250, or 5 percent of the \$8.1 million awarded for 94 Urban Green Space grants since the beginning of the Stewardship Program.

Table 15

Urban Green Space Grants Not Meeting Program Criteria

<u>Grant Recipient</u>	<u>Stewardship Grant Amount</u>	<u>Acres</u>
City of River Falls	\$ 70,000	16.7
City of Waupaca	71,250	95.0
Village of Howard	202,500	67.6
City of Black River Falls	<u>65,500*</u>	<u>43.9*</u>
Total	\$409,250	223.2

* Since this grant is not yet closed, both the final grant amount and the acres purchased may change slightly.

Several factors may have contributed to the use of Urban Green Space funds to buy land that included plans for activities not within the scope of the program. Urban Green Space program funds are available on a statewide basis, so the Department’s regional staff may have an incentive to use these funds before using Stewardship Program funds allocated specifically to their regions.

Department staff indicated they had an informal policy that allowed Urban Green Space funds to be used for non-eligible purposes if 51 percent or more of the project's acreage was for conservancy purposes. In 1998, following internal discussions, managers changed this policy and limited the use of Urban Green Space funds to projects that fully met the criteria in statutes and administrative code. In addition, the Department's 1999 official handbook describing Stewardship Program funding added the following description to the Urban Green Space program: "Sports fields, such as softball and soccer and sports courts, are not allowed." We found no Urban Green Space grants awarded after FY 1997-98 that allowed for the purchase of land for sports-related purposes.

GRANT APPROVAL AND ADMINISTRATION PROCESS

The Department receives more grant applications than it has funding available.

Because requests for grants exceed the funds available, the Department has established a process to rate and rank grant applications. In FY 1999-2000, the Department received applications from local governments totaling \$18.1 million and awarded \$5.7 million in grants, or 31.5 percent of the amount requested. We reviewed the Department's grant-review process to determine whether it includes an assessment of each project's overall cost; individual cost factors, such as the number of acres necessary for the intended purposes; or other ways of attaching monetary value to proposals in its ranking system.

Local Government Grant Application Process

Before they submit formal applications for Aid to Local Parks, Stream Bank Protection, Urban Green Space, and Urban Rivers grants, local governments typically work closely with the community services specialists in the Department's regional offices on questions of eligibility and levels of funding available. Applications do not usually indicate the category from which funding is sought, unless the project is for development activities. This assignment is made by staff in the Department.

The application requires the local government to identify local resources that have been or will be committed to the project, the source of local matching funds, whether the project implements a recommendation contained in a locality's comprehensive outdoor recreation plan, and how the project will serve the community or its intended users. Local governments must also provide a worksheet indicating estimated project costs.

Because grant applications are reviewed once a year as a group, some acquisition projects a local government began in the preceding year may be eligible for funding. Department staff indicated that in some cases, a local government applicant must move expeditiously when a property is on the market to prevent its purchase and possible development by other interested parties.

Local Government Grant-Review and Ranking Process

Grant applications are required to be submitted by May 1 of each year. The review of grant applications is conducted initially by the Department's regional community services specialists, who determine

whether the applications are complete, whether the projects are eligible for funding, how much funding would be required, and which types of funding the projects could qualify for. For example, a project that proposes to purchase land for the purpose of creating a new park on or adjacent to rivers that flow through urban areas may fit both the Urban Rivers and the Aid to Local Parks programs.

Department staff rank grant funding proposals according to established criteria.

After a project is assigned to a grant category, it is rated. The Department has developed separate rating criteria for each type of grant, but the criteria generally consider whether, for example:

- the purchase fits a local outdoor recreation plan;
- it continues land acquisitions to complete the purchase of a larger area, to “fill in” areas around which land has already been purchased;
- the project provides or supports multiple-use outdoor recreational activities;
- the purchase has community support; and
- the project contains donations or volunteer labor.

In some grant categories, land that is close to high-population areas is rated higher than land in more rural counties. For example, in the Urban Green Space category, projects to purchase or develop property in high-population areas or areas with a rapidly increasing population receive a higher priority than Urban Green Space projects in lower-population areas.

Once the regional community services specialists complete the rating review and rank the applications within their region, a second review is conducted by a committee of all of the regional community services specialists and the central office grant manager for three of the four grant categories for which the proposed projects are eligible: Urban Green Space, Urban Rivers, and Stream Bank Protection. Each community services specialist presents the proposed projects for his or her region and the proposed ranking. Following a discussion of all proposals, a final ranking, by type of grant, project, and funding amount, is developed by the group. This ranking typically occurs in June.

Some program funds are available statewide, while others are allocated by region.

The total amount expended for grants to local governments in these three categories, \$17,380,270, accounted for 49.1 percent of local grant expenditures. The remaining 50.9 percent of funds, \$18,018,231, was for local government Aid to Local Parks grants and was distributed on a regional basis according to a formula that considers population and an

equity calculation. Therefore, in each region, the Department's local community services specialist determines which local parks projects will receive funding.

NCO Grant Application and Review Process

Central office grant staff, in consultation with other staff in the Department, review and rank NCO grant applications.

The grant application process for NCOs is similar to that for local governments and follows the same annual timetable, but the ranking process is conducted by the statewide NCO grant manager, in consultation with other staff in the Department, rather than by the Department's regional community services staff. As with the local government grants, the applications are reviewed and assigned to a grant category by staff in the Department. Separate criteria are established for each grant category. For example:

- Habitat Areas projects that protect, enhance, or restore ecologically significant plant and wildlife communities receive higher priority than those that address less-significant plant and wildlife communities;
- Natural Areas projects are evaluated according to the rarity and number of the natural communities or species to be protected; and
- Stream Bank Protection projects are evaluated based on the extent to which the water quality and fish habitat of a stream are threatened by urban or agricultural runoff.

Improving the Review and Ranking Process

The Department's process of ranking grant proposals is designed primarily to compare grants among themselves in order to distribute funds. As noted, grant requests by local governments in FY 1999-2000 were for more than three times the funding available. The Department's review process does not, however, attempt to rank projects based on more subjective criteria by, for example, considering proposed benefits in relation to cost or considering whether the proposed number of acres to be purchased is necessary for the planned use of the property. Department staff indicate they have, on occasion, had informal discussions with applicants on project cost; however, such analyses or discussions are not part of the formal review.

Evaluating each project's cost, size, and scope is difficult. Projects with the highest per acre acquisition and development costs are typically in or near urban areas, where both development pressure and demand for recreation and preservation are highest. In contrast, acquisition and

development costs are typically lowest in more rural areas. While the Stewardship Program can fund more projects in these low-cost areas, demand for recreation and conservation may also be lower there.

Department staff have indicated that while cost-benefit factors are considered in stewardship projects directly undertaken by the Department, they are not part of the grant program's review process because the Department believes project scope and cost are local decisions. In contrast, some have argued that because the strong demand for stewardship grants exceeds available funding, and because state funds account for up to 50 percent of project costs, the Department should take a greater role in evaluating project proposals.

The Department's review criteria could include an analysis of alternatives to the proposed project's size and scope.

There are steps the Department could take to address project cost and scope. For example, it could urge communities to move strategically to purchase land before sewer and other public utilities are extended to the property boundaries, and values peak, by giving such projects a higher ranking. In addition, for high-cost projects involving acres under significant development pressure, the Department could assess whether all of the proposed acreage is necessary for the stated purposes. For example, for a hypothetical proposal to buy 75 acres adjacent to existing conservation land for use as nature and cross-country skiing trails, the Department could develop grant review criteria to evaluate whether a smaller parcel would still meet the project's objectives. Depending on its evaluation, the Department could, for example, decide to fund 50 percent of the cost of a smaller parcel. The local government or NCO could still purchase the larger parcel but would have to raise money locally.

Record-keeping for Stewardship Lands

Not all records were maintained in the files we reviewed.

In order to ensure that various conditions established for stewardship grants are followed, the Department should maintain adequate documentation in its files. For example, records are necessary to demonstrate that funds are spent appropriately. Other records are necessary to ensure compliance with the stipulations in deeds or award contracts, such as prohibitions against sale of the property without the Department's approval. Such records need to be kept for as long as the conditions are imposed. During our file review, we noted inconsistencies in the types of records staff maintained in files and the absence of clear guidelines on record retention.

We noted that 110 files, or 45.3 percent of those we reviewed, contained incomplete documentation, including:

- 71 files in which the grant application or award letter was missing;

- 66 files in which there were no cancelled checks supporting the grant recipients' payment; and
- 27 files in which the recipients' reimbursement claims or worksheets were missing.

The primary reason for the variation in file documentation is that the Department has not developed or implemented formal record-keeping policies for its staff. As a result, each regional office, which keeps files related to local government grant files, and the central office, which keeps NCO grant and departmental acquisition files, have managed their files differently.

The Department should establish record-retention guidelines.

We believe that the Department should develop standard record-retention policies that comply with state requirements. Such policies should provide adequate record retention to enable external review of grant expenditures and to enable enforcement of any use restrictions placed on the property. Therefore, *we recommend the Department of Natural Resources establish record-retention guidelines for grant files, specifying the number of years each type of record must be maintained.*

The guidelines should address documents such as:

- the grant contract and any variances or amendments to it;
- a copy of the legal transfer deed and any deed restrictions placed on the land for acquisitions;
- site and boundary maps;
- copies of grant recipients' payments; and
- reimbursement claim forms and worksheets.

While existing record-retention guidelines are inadequate, the Department's pre-audit function provides increased assurance that grant payments are made only for eligible expenses. Grant payments by the Department for land acquisition are made on an expenditure reimbursement basis, where payments are made only after the grant recipient incurs a cost. Development grant recipients may request up to 50 percent of the grant award before a project's completion. The Department's internal audit unit reviews claims for reimbursement and supporting information, such as canceled checks, to determine whether they comply with the grant requirements. Only after claims are approved by this pre-audit function are payments made.

STEWARDSHIP 2000 PROGRAM

The Department has made several policy decisions in order to implement Stewardship 2000.

In reauthorizing the Stewardship Program through 1999 Wisconsin Act 9, the Legislature almost doubled available funding and made changes to the original 12 program categories. The Legislature also provided the Department and the Natural Resources Board with greater latitude in managing the program. Whereas funding under the original Stewardship Program was set by the Legislature at specific annual levels for each of the 12 categories, under Stewardship 2000, categorical funding levels for departmental, local government, and NCO projects may be determined by the Department and the Natural Resources Board. In June 2000, the Department established funding levels for each subprogram for the Department, local governments, and NCOs for FY 2000-01, and in August 2000, the Natural Resources Board approved a proposed definition of “nature-based outdoor recreation.”

Implementation of Stewardship 2000 Program Changes

Certain expenditures must be made only for nature-based outdoor recreation.

As shown in Table 16, Stewardship 2000 funding for FY 2000-01 is divided among four subprograms: Land Acquisition, Property Development and Local Assistance, Bluff Protection, and Baraboo Hills. Local units of government will be eligible for grant funding in the Property Development and Local Assistance subprogram and the Baraboo Hills subprogram, but not the Land Acquisition or Bluff Protection subprograms, while NCOs will be eligible for grant funding under all four subprograms. All expenditures through the Property Development and Local Assistance subprogram, for departmental projects and for grants, must be for nature-based outdoor recreation, which the Legislature, in 1999 Wisconsin Act 9, directed the Department to define.

Table 16

Stewardship 2000 Expenditure Plan*

<u>Subprogram</u>	<u>Fiscal Year 2000-2001</u>
Land Acquisition	
Department	\$22,500,000
Grants to NCOs	6,000,000
Property Development and Local Assistance	
<i>Property development</i>	
Department	4,250,000
Grants to Friends groups and NCOs	250,000
<i>Local assistance grants to local units of government and NCOs</i>	7,000,000
Bluff Protection	1,000,000
Baraboo Hills	<u>5,000,000</u>
Total	\$46,000,000

* This expenditure plan was approved by the Natural Resources Board in June 2000.

The Bluff Protection and Baraboo Hills subprograms each receive funding only in the first fiscal year of the Stewardship 2000 program. The purpose of the Bluff Protection subprogram is to acquire and preserve bluff land along the Great Lakes. Any funding for Bluff Protection that is not expended by June 30, 2004, will revert to the Land Acquisition subprogram. The purpose of the Baraboo Hills subprogram is to acquire land within the boundaries of the Baraboo Range National Landmark. Any funding for the Baraboo Hills subprogram that is not expended by January 1, 2006, also will revert to the Land Acquisition subprogram. In addition, one priority that was created under the Land Acquisition subprogram is for acquisition of land in the Middle Kettle Moraine. Unlike funding for Bluff Protection and Baraboo Hills, funding may be available for Middle Kettle Moraine in each year of the program.

Nature-Based Outdoor Recreation

The most flexible grant category, Aid to Local Parks, accounted for 40.0 percent of all grant expenditures.

The restriction of property development and local assistance grants to nature-based outdoor recreation could have a significant effect on the types of activities funded, especially to the Aid to Local Parks category. Under the original Stewardship Program, Aid to Local Parks was allocated more funding than any other grant category—\$2.25 million annually—and was the most utilized of all categories. Staff in the Department believe that the Aid to Local Parks category is frequently used because it is the most flexible and broadest category. Additionally, this is the only grant category that provides funding for local property development, which staff in the Department indicate may be more affordable for some local governments than land acquisition. As shown in Table 17, in the program’s first ten years, the Department awarded 491 grants for local park development projects and 124 grants for local parkland acquisition. The 615 Aid to Local Parks grants make up 63.1 percent of the 974 stewardship grant awards made from FY 1990-91 through FY 1999-2000. Expenditures for these grants total \$18.1 million, or 40.0 percent of all grant expenditures.

Table 17

Aid to Local Parks Grants
FY 1990-91 through FY 1999-2000

<u>Project Type</u>	<u>Number of Grants</u>	<u>Percentage of Total</u>	<u>Grant Expenditures</u>	<u>Percentage of Total</u>
Development	491	79.8%	\$13,509,502	74.5%
Acquisition	124	20.2	4,620,464	25.5
Total	615	100.0%	\$18,129,966	100.0%

Development grants have been awarded for a variety of activities.

Our file review of 243 stewardship grants included 161 Aid to Local Parks grants, 119 of which were development projects. Because the contracts for these grants contained specific information on the proposed development, we were able to group similar activities. As shown in Table 18, we determined that:

Table 18

Development Activities in Aid to Local Parks Grants

<u>Proposed Development*</u>	<u>Number of Grants</u>	<u>Percentage of the 119 Development Grants Reviewed</u>
General site development (includes engineering, landscaping, utilities, and signage)	110	92.4%
Parking areas, access roads, and/or related lighting	57	47.9
Footbridges, boardwalks, walkways, and/or linkage paths	52	43.7
Trails	48	40.3
Restrooms	47	39.5
Sports facilities (includes sports fields and courts, bleachers, swimming pools, ice rinks, and/or related lighting)	44	37.0
Shelters	41	34.5
Playground equipment (includes wading pools)	38	31.9
Picnic areas	38	31.9
Shoreline development, maintenance, and/or protection (includes fishing piers and boat launches)	30	25.2
Other	22	18.5
Bathhouses	12	10.1
Concession stands and/or warming houses	4	3.4

* Proposed development information was gathered from grant contracts examined during our file review of 119 selected Aid to Local Parks development grants.

- almost all of the grants included spending for general site development;
- almost half of the grants included spending for parking areas, access roads, and/or related lighting and/or for footbridges, boardwalks, walkways, and/or linkage paths; and

- about one-third of the grants included spending for restrooms, sports facilities, shelters, playground equipment, and/or picnic areas.

In addition to the development activities listed in Table 18, 27.7 percent of the grant contracts included project features intended to increase accessibility for disabled individuals.

The Department had completed reimbursement to grant recipients for 94 of the 119 Aid to Local Parks development grants we reviewed. Total grant funding expended on those 94 grants was \$5,522,362, or an average of \$58,749 per grant. Each grant included an average of 4.8 different development activities, such as parking areas, general site development, or trails. Because grant recipients are not required to relate their expenditures to specific activities, we were unable to determine the spending for each type of development. However, some grant files did include some specific expenditure examples. For example:

- of \$305,983 expended for a grant project in Sheboygan County, \$272,763 was spent on trails;
- of \$285,542 expended for a grant project in the Town of Lisbon, in Waukesha County, \$2,665 was spent on sports facilities, \$49,762 was spent on playground equipment, and \$6,355 was spent on trails;
- of \$205,203 expended for a grant project in the City of Altoona, in Eau Claire County, \$147,447 was spent on sports facilities and \$25,620 was spent on playground equipment;
- of \$177,486 expended for a grant project in the City of Antigo, in Langlade County, the entire amount was spent to develop sports facilities; and
- of \$90,579 expended for a grant project in the City of Ladysmith, in Rusk County, \$81,340 was spent on playground equipment.

Two committees have developed a definition of nature-based outdoor recreation.

To define nature-based outdoor recreation, the Department organized two committees that began meeting in March 2000. The first committee consisted of staff in the Department. The second committee, the Stewardship Advisory Council (SAC), consists of representatives of NCOs, local governments, Friends groups, and other groups with an outdoor recreation focus.

The draft language developed by a working group made up of members of both committees and submitted to the Natural Resources Board in August 2000 as an emergency administrative rule states:

“Nature-based outdoor recreation” means activities where the primary focus or purpose is the appreciation or enjoyment of nature. These activities may include but are not limited to hiking, bicycling, wildlife or nature observation, camping, nature study, fishing, hunting, picnicking, cross-country skiing, canoeing, and multi-use trail activities. Support facilities for these activities may include but are not limited to access roads, parking areas, utility and sanitation systems, sanitary and shelter buildings, signs, interpretive items, and other features that enhance nature-based outdoor recreation or improve disabled accessibility. Ineligible activities include but are not limited to sports that require extensively developed open space such as dedicated sports fields, swimming pools, and tennis courts.

In the motion adopting the emergency rule, the Natural Resources Board directed staff in the Department to interpret nature-based outdoor recreation to include target and shooting ranges as eligible for Stewardship funding. The Board made no changes to the staff interpretation that activities such as playgrounds, skateboard parks, and golf courses are ineligible.

The current definition of nature-based outdoor recreation is open to interpretation.

A policy question for the Legislature in reviewing the emergency administrative rule during the final rule-making process will be the issue of the primary purpose of the grant. For example, for development grants, questions may arise whether expenditures for the development of sports fields or playground equipment are ineligible under any circumstances, or whether they are ineligible only as a primary focus or purpose of the project. If the proposed rule is interpreted to mean such activities are ineligible as the primary focus, some might argue they are eligible if they constitute less than one-half the cost of the project. Similarly, for land acquisition grants, questions may be raised about whether or not locally funded sports fields or facilities may be sited on property acquired with stewardship funds, or whether such facilities may be sited if the majority of the parcel is dedicated to nature-based activities such as hiking, biking, or wildlife observation.

Determining the question of primary purpose will be essential for program operations because most projects serve multiple uses. As noted, in our sample of Aid to Local Parks development grants, projects had an average of 4.8 development activities. For example, a typical project might include hiking trails that could be used as cross-county ski trails in the winter, picnic areas, soccer fields or baseball diamonds, and parking. In such cases, it is usual for the nature-based activities to account for over 50 percent of the parcel, or over 50 percent of the development costs. Consequently, if the interpretation adopted requires more than 50 percent

of a parcel or more than 50 percent of development costs to be for nature-based outdoor recreation and makes non-nature-based activities eligible if they constitute less than a majority of costs or size of the parcel, then future projects in the Aid to Local Parks category may closely resemble past projects. Conversely, the greater the degree to which activities are restricted to nature-based outdoor recreation, the greater the degree to which future projects will differ in content from past projects. In addition to the Aid to Local Parks category, the Urban Green Space, Urban Rivers, and the new Acquisition of Development Rights grant categories must also restrict awards to only those projects that provide for nature-based outdoor recreation.

APPENDIX I

Warren Knowles-Gaylord Nelson Stewardship Program Categories (FY 1990-1991 through FY 1999-2000)

General Land Acquisition – This category provided \$6.7 million annually for land acquisitions by the Department. From FY 1990-91 through FY 1999-2000, the Department expended \$68,228,358 in stewardship funding, including miscellaneous costs such as for appraisals and title insurance, for 73,504 acres and for conservation easements on an additional 1,749 acres. In addition, the Department expended \$11,259,651 in federal funding toward the purchase of 8,766 acres and conservation easements on an additional 1,025 acres. Appendix III shows the number of acres purchased by the Department through each of the stewardship categories and includes federal expenditures. Federal funding was available through the Sport Fishery Restoration (Dingell-Johnson Fisheries), Pittman-Robertson Wildlife, Land and Water Conservation, State Parks, Coastal Zone Management, and North American Wetland Conservation funds.

General Property Development – This category provided \$3.5 million annually for property development by the Department. Funding was for the Department to repair and replace amenities such as storage facilities, toilet and shower buildings, campgrounds, and walkways and to purchase new facilities for state-owned recreation and conservation properties. From FY 1990-91 through FY 1999-2000, the Department expended \$22,779,533 in stewardship funding for General Property Development.

Within the General Property Development category, the Department also provided up to \$200,000 annually in grants to Friends groups, which carry out development projects on state land. Friends groups are incorporated under Section 501(c)(3) or (4) of the Internal Revenue Service Code with the specific purpose of conducting projects on a departmental property. From FY 1990-91 through FY 1999-2000, the Department awarded 118 grants to Friends groups and expended \$605,677 toward matching grant amounts. The grants to Friends groups are relatively small in value when compared to other stewardship grants to local governments and NCOs, with an average award of \$5,133 per grant. In addition, grants to Friends groups are different from other stewardship grants because they are for supporting departmental projects, not for purchasing property. For these reasons, we chose not to include grants to Friends groups in our review of grant files.

Aid to Local Parks – This category provided \$2.25 million annually for grants for acquisition or development of local outdoor recreation areas. Funding allowed the Department to award grants to local units of government and NCOs. Local units of government were eligible for both acquisition and development grants, while NCOs were eligible only for acquisition grants. However, only one NCO grant was awarded in this category. Funding for the Aid to Local Parks grants was allocated through regional competition: 70 percent of available funding was distributed among counties based on their proportionate share of the state population, and 30 percent was divided equally among the counties. From FY 1990-91 through FY 1999-2000, 615 grants were awarded and \$18,129,966 was expended toward matching grant amounts. Of the 615 grants awarded, 491 were for development projects and 124 were for land acquisition.

Lower Wisconsin State Riverway – This category provided \$2.0 million annually for land acquisition along the lower Wisconsin River. Funding was only for land acquisition by the Department. From FY 1990-91 through FY 1999-2000, \$19,115,000 was expended, including miscellaneous costs,

toward the purchase of 22,928 acres and conservation easements on an additional 1,111 acres. However, \$3.6 million of the total was expended to purchase 3,291 acres of the Willow Flowage, and \$2.1 million of the total was expended toward the purchase of 1,523 acres of land in Lincoln County for the Grandfather Falls-Bill Cross Rapids. Although neither of these purchases was for land within the Lower Wisconsin State Riverway, the funding for each was specifically authorized by the Legislature.

Urban Rivers – This category provided \$1.9 million annually to purchase land along rivers in urban areas. Funding allowed the Department to award grants to local units of government and NCOs. This category was added to the Stewardship Program in FY 1992-93, and funding for the program was taken out of the general land acquisition category. For FYs 1993-94, 1994-95, and 1995-96, \$1.0 million annually in Urban Rivers funding was enumerated by the Legislature to be expended toward the Monona Terrace project in Madison, to construct a bicycle path and rooftop terrace. Grants were awarded through statewide competition. From FY 1992-93 through FY 1999-2000, 133 grants were awarded to local governments, 3 grants were awarded to NCOs, and \$10,957,735 was expended toward matching grant amounts, including the \$3.0 million provided for the enumerated Monona Terrace project.

Natural Areas – This category provided \$1.5 million annually to acquire lands that have escaped unnatural environmental disturbance. Funding allowed the Department to make acquisitions itself and to award grants to NCOs. From FY 1990-91 through FY 1999-2000, the Department expended \$10,595,017, including miscellaneous costs, toward its own purchase of 13,198 acres and conservation easements on an additional 6,837 acres. Grants were awarded through statewide competition. From FY 1990-91 through FY 1999-2000, 43 grants were awarded to NCOs, and \$2,715,370 was expended toward matching grant amounts.

Habitat Areas – This category provided \$1.5 million annually for acquisition and restoration of habitat. Funding allowed the Department to make acquisitions itself and to award grants to NCOs. From FY 1990-91 through FY 1999-2000, the Department expended \$132,410 on restoration projects. The Department also expended \$7,929,684, including miscellaneous costs, toward its own purchase of 5,475 acres and conservation easements on an additional 3,566 acres. Grants were awarded through statewide competition. From FY 1990-91 through FY 1999-2000, 40 grants were awarded to NCOs, and \$3,082,726 was expended toward matching grant amounts.

Stream Bank Protection – This category provided \$1.0 million annually for the protection of streams through the acquisition of buffer areas. Funding allowed the Department to make acquisitions and to award grants to local units of government and NCOs. From FY 1990-91 through FY 1999-2000, the Department expended \$6,374,161, including miscellaneous costs, toward the purchase of 8,961 acres and conservation easements on an additional 1,500 acres. Grants were awarded through statewide competition. From FY 1990-91 through FY 1999-2000, 19 grants were awarded to local governments, 7 grants were awarded to NCOs, and \$1,604,324 was expended toward matching grant amounts.

State Trails – This category provided \$1.0 million annually for acquisition and development of state trails to be used by hikers, bicyclists, cross-country skiers, and equestrians as part of the state park system. Funding allowed the Department to conduct trail development projects and to award grants to NCOs for state trail land acquisition. The Department also expended funds from the General Land Acquisition category to acquire land for state trails. From FY 1990-91 through FY 1999-2000, the Department expended \$6,268,995 toward trail development activities. Grants were awarded through

statewide competition. From FY 1990-91 through FY 1999-2000, two grants were awarded to NCOs, and \$21,987 was expended toward matching grant amounts.

Urban Green Space – This category provided \$750,000 annually for the preservation of open space and to provide for non-commercial gardening within urban areas. Funding allowed the Department to award grants to local units of government and NCOs. Grants were awarded through an annual statewide competition. From FY 1990-91 through FY 1999-2000, 89 grants were awarded to local governments, 5 grants were awarded to NCOs, and \$6,437,857 was expended toward matching grant amounts.

Natural Areas Heritage – Through this category, the Department matched donations of natural area land made to it by NCOs and other private parties. The category provided \$500,000 annually toward these matching donations. From FY 1990-91 through FY 1999-2000, the Department expended \$3,515,894, including miscellaneous costs, toward its own purchase of 5,001 acres and conservation easements on an additional 32 acres. Although statutes allow the Department to award grants to NCOs through this category, officials decided to award grants to NCOs only under the Natural Areas category.

Ice Age Trail – In addition to the funding for state trails, this category provided \$500,000 annually to acquire land for completion of the Ice Age Trail. Funding allowed the Department to acquire land itself and to award grants to the Ice Age Park and Trail Foundation for land acquisition. From FY 1990-91 through FY 1999-2000, the Department expended \$394,417, including miscellaneous costs, toward its own purchase of 396 acres and conservation easements on an additional 41 acres. From FY 1990-91 through FY 1999-2000, 18 grants were awarded to the Ice Age Park and Trail Foundation, and \$2,365,052 was expended toward matching grant amounts.

APPENDIX II

Warren Knowles-Gaylord Nelson Stewardship Program Expenditures by Fiscal Year

<u>Category</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>Total</u>
General Land Acquisition	\$7,346,307	\$ 7,749,145	\$ 3,688,311	\$ 5,615,470	\$ 6,665,971	\$ 7,856,524	\$ 6,449,385	\$10,062,943	\$ 7,087,796	\$ 5,706,506	\$ 68,228,358
General Property Development	107,012	903,814	1,406,709	2,249,033	2,934,016	1,612,654	3,164,710	3,296,090	4,699,136	2,406,359	22,779,533
Aid to Local Parks	5,000	1,093,708	1,866,586	2,336,450	1,339,030	2,876,718	2,760,085	1,688,035	2,159,802	2,004,552	18,129,966
Lower Wisconsin State Riverway	778,666	1,568,268	1,688,023	1,710,230	1,054,255	935,132	1,002,831	6,790,229	729,766	2,857,600	19,115,000
Urban Rivers	NA	NA	0	355,098	678,508	1,253,012	4,192,220	973,465	2,367,744	1,137,688	10,957,735
Natural Areas	1,241,568	979,784	1,220,355	1,165,162	875,243	2,415,694	1,004,360	1,354,632	669,016	2,384,573	13,310,387
Habitat Areas	0	104,457	101,765	1,758,501	2,435,900	2,593,926	1,365,897	953,841	1,024,928	805,605	11,144,820
Stream Bank Protection	900	43,229	175,045	1,811,221	2,332,053	560,608	783,100	577,171	801,417	893,741	7,978,485
State Trails	94,377	426,995	1,004,742	223,039	824,915	1,039,160	587,525	710,156	315,874	1,064,199	6,290,982
Urban Green Space	0	520,208	1,094,496	489,681	601,668	1,200,396	281,750	689,219	1,188,433	372,006	6,437,857
Natural Areas Heritage	255,634	98,833	962,566	0	0	1,224,051	13,033	874,131	45,296	42,350	3,515,894
Ice Age Trail	<u>0</u>	<u>0</u>	<u>340,593</u>	<u>0</u>	<u>1,800</u>	<u>508,235</u>	<u>588,648</u>	<u>138,010</u>	<u>857,603</u>	<u>324,580</u>	<u>2,759,469</u>
Total	\$9,829,464	\$13,488,441	\$13,549,191	\$17,713,885	\$19,743,359	\$24,076,110	\$22,193,544	\$28,107,922	\$21,946,811	\$19,999,759	\$190,648,486

APPENDIX III

Department of Natural Resources Land Acquisition under Stewardship by County*
 FY 1990-91 through FY 1999-2000
 (in acres)

<u>County</u>	<u>Conservation Easement</u>	<u>Land</u>	<u>Federal Expenditures</u>	<u>Stewardship Expenditures**</u>	<u>Total Expenditures**</u>
Adams	1,718	5,186	\$ 130,050	\$ 4,094,886	\$ 4,224,936
Ashland	20	242	0	152,800	152,800
Barron	21	381	18,100	353,705	371,805
Bayfield	23	5,445	315,581	827,094	1,142,675
Brown	44	622	49,150	377,433	426,583
Buffalo	0	926	27,000	258,200	285,200
Burnett	10	1,307	77,737	507,888	585,625
Calumet	1	575	159,637	453,232	612,869
Chippewa	53	3,342	48,975	1,026,425	1,075,400
Clark	0	224	0	468,833	468,833
Columbia	199	1,763	275,614	1,884,056	2,159,670
Crawford	290	5,192	85,290	2,821,662	2,906,952
Dane	506	3,063	277,881	4,924,457	5,202,338
Dodge	457	943	445,850	881,651	1,327,501
Door	517	868	1,156,840	2,307,735	3,464,575
Douglas	24	7,711	13,500	1,770,570	1,784,070
Dunn	524	1,039	32,257	535,319	567,576
Eau Claire	108	143	14,700	249,800	264,500
Florence	1,803	5,215	9,450	2,315,050	2,324,500
Fond du Lac	1,313	4,341	411,950	4,230,990	4,642,940
Forest	0	90	0	45,000	45,000
Grant	536	3,249	182,725	2,143,114	2,325,839
Green	0	304	0	286,200	286,200
Green Lake	5	274	58,388	149,712	208,100
Iowa	673	3,010	61,742	2,307,463	2,369,205
Iron	84	21,016	0	8,833,738	8,833,738
Jackson	3	2,040	235,028	896,300	1,131,328
Jefferson	7	1,849	59,446	2,207,252	2,266,698
Juneau	427	4,255	19,500	3,892,500	3,912,000
Kenosha	87	100	163,200	512,626	675,826
Kewaunee	1	296	0	327,600	327,600
La Crosse	93	93	137,625	126,281	263,906
Lafayette	175	297	117,143	289,990	407,133
Langlade	5	1,352	548,612	577,413	1,126,025
Lincoln	0	2,314	201,850	2,524,850	2,726,700
Manitowoc	516	413	0	1,719,050	1,719,050

<u>County</u>	<u>Conservation Easement</u>	<u>Land</u>	<u>Federal Expenditures</u>	<u>Stewardship Expenditures**</u>	<u>Total Expenditures**</u>
Marathon	0	938	\$ 53,250	\$ 589,347	\$ 642,597
Marinette	60	1,875	134,250	3,282,349	3,416,599
Marquette	16	820	105,615	688,460	794,075
Menominee	0	0	0	0	0
Milwaukee	0	0	0	0	0
Monroe	476	734	48,118	706,281	754,399
Oconto	3	639	66,750	464,744	531,494
Oneida	153	10,576	0	10,394,450	10,394,450
Outagamie	3	3,270	554,075	2,514,640	3,068,715
Ozaukee	52	612	0	253,440	253,440
Pepin	5	1,298	0	412,748	412,748
Pierce	1	611	0	601,494	601,494
Polk	131	575	70,700	323,400	394,100
Portage	9	1,961	373,961	1,388,639	1,762,600
Price	1	56	0	38,125	38,125
Racine	3	0	0	500	500
Richland	202	3,648	93,773	2,399,091	2,492,864
Rock	1	606	0	749,015	749,015
Rusk	0	168	23,250	23,250	46,500
Sauk	1,329	3,249	56,017	3,522,622	3,578,639
Sawyer	3	516	126,857	485,985	612,842
Shawano	27	1,083	15,088	278,172	293,260
Sheboygan	24	1,937	221,175	1,981,087	2,202,262
St. Croix	8	1,555	634,369	2,907,919	3,542,288
Taylor	0	90	19,920	48,830	68,750
Trempealeau	93	983	80,151	484,800	564,951
Vernon	34	510	270,897	381,119	652,016
Vilas	8	2,329	87,000	1,795,125	1,882,125
Walworth	153	812	61,425	1,731,299	1,792,724
Washburn	172	1,375	90,750	167,641	258,391
Washington	200	808	329,167	1,963,413	2,292,580
Waukesha	40	1,541	665,075	5,772,480	6,437,555
Waupaca	81	601	535,274	1,143,972	1,679,246
Waushara	94	1,185	1,042,173	1,490,738	2,532,911
Winnebago	2,237	1,545	165,750	2,158,924	2,324,674
Wood	<u>0</u>	<u>242</u>	<u>0</u>	<u>131,900</u>	<u>131,900</u>
Total	15,862	138,228	\$11,259,651	\$108,556,874	\$119,816,525

* Acres for conservation easements include 9,791 acres purchased with assistance from federal funds available through the Sport Fishery Restoration (Dingell-Johnson Fisheries), Pittman-Robertson Wildlife, Land and Water Conservation, State Parks, Coastal Zone Management, and North American Wetland Conservation programs.

** Stewardship expenditures and total expenditures do not include miscellaneous costs, departmental development activities, or grant expenditures.

APPENDIX IV

Other Midwestern States' Land Conservation Programs

<u>State</u>	<u>Program Name</u>	<u>Program Description</u>	<u>Available Funds</u>
Illinois	Open Space Land Acquisition and Development Fund	35 percent of real estate transfer taxes provide grants to local governments for development of outdoor recreation lands and facilities.	\$18.2 million
	Conservation 2000	General appropriation and general obligation bonding provide grants to approved "local partnership councils" for the acquisition of land and easements.	\$10.2 million
	Natural Areas Acquisition and Management Fund	15 percent of real estate transfer tax funds the acquisition and restoration of natural heritage lands by the Department of Natural Resources.	\$7.8 million
	Open Land Trust Program	General obligation bonding funds acquisition of natural areas by the Department of Natural Resources, local governments, and nonprofit organizations.	\$10.0 million
Indiana	Heritage Trust Fund	Environmental license plate sales, general appropriation, and donations fund the acquisition and development of natural areas by the Department of Natural Resources, local governments, and nonprofit organizations.	\$4.3 million
	Hometown Indiana	General appropriation funds grants to municipalities matching 50 percent of costs up to \$400,000 for the acquisition and development of parks, historic areas, and urban forests by municipalities, with both indoor and outdoor recreation projects eligible for funding.	\$5.0 million in FY 1996-97
	Wabash River Heritage Corridor Fund	General appropriation funds grants that match 75 percent of costs for the acquisition and development of natural areas adjacent to the Wabash River by local governments and nonprofit organizations.	\$5.0 million in FY 1998-99
	Abandoned Mine Reclamation Project	General appropriation funds the Department of Natural Resources' reclamation of abandoned strip-mines for use as park space.	\$5.0 million in FY 1996-97

<u>State</u>	<u>Program Name</u>	<u>Program Description</u>	<u>Available Funds</u>
Iowa	Resource Enhancement and Protection Fund	Lottery ticket and license plate sales fund a variety of programs for the enhancement of natural resources by the Department of Natural Resources, Department of Agriculture, and local governments. Program provides approximately \$2.0 million in grants to counties for acquisition, capital improvements, and protection of natural resources. Expenditures for athletic facilities are not allowed. Thirty percent of funding is allocated to Iowa's 99 counties and another 30 percent is allocated based upon county population, with the requirement that counties dedicate \$0.22 per \$1,000 of the assessed taxable property value to conservation programs. The remaining 40 percent of funding is available through competitive grants.	\$9.0 million
	Wildlife Habitat Stamp Program	Hunting and fishing license fees fund acquisition and preservation of wildlife areas by the Department of Natural Resources and local governments.	\$1.2 million
Michigan	Natural Resources Trust Fund	Oil and gas lease revenues fund acquisition and development of natural areas by the Department of Natural Resources and local governments. Program provides grants to local units of government and to the state for acquisition and development of lands and facilities. Participant to provide at least 25 percent of project costs.	\$27.2 million
	Clean Michigan Initiative	General obligation bonding funds development of outdoor and indoor recreation by the Department of Natural Resources and local governments.	\$24.0 million
Minnesota	Capital Bonding Fund	Capital bonding is used to fund a variety of conservation programs, including the acquisition and development of natural areas by the Department of Natural Resources, local governments, and nonprofit organizations.	\$24.0 million
	Environmental and Natural Resources Trust	50 percent of state lottery revenues contribute to a fund currently totaling \$300 million, from which no more than 5 percent of the amount in trust may fund the acquisition and development of natural areas by the Department of Natural Resources, local governments, and nonprofit organizations.	\$13.0 million
	Minnesota Future Resources Fund	A cigarette tax of \$0.02 per pack funds grants for environmental projects managed by the Department of Natural Resources, local governments, and nonprofit organizations.	\$8.0 million
	Outdoor Recreation Grant	Provides a 50 percent match, up to \$50,000, to local governments for the acquisition and enhancement of outdoor recreation facilities that may include athletic facilities. Matching grants exceeding \$50,000 may be approved by the Legislature.	\$2.0 million in FY 1998-99
Ohio	Nature Works Bond Issue	Bond funds authorized at \$50 million per year, up to a cap of \$200 million, for park and recreation acquisition and development, as well as other conservation activities.	\$50.0 million

APPENDIX V

Acres Owned by Midwestern States and the Federal Government

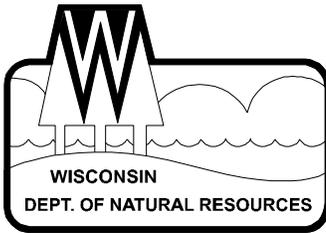
<u>State</u>	<u>Acres</u>	<u>State-Owned Acres</u>	<u>Percentage State-Owned</u>	<u>Federally Owned Acres</u>	<u>Percentage Federally Owned</u>
Michigan	36,453,760	4,472,175	12.3%	4,082,821	11.2%
Minnesota	50,910,720	6,018,000	11.8	4,429,233	8.7
Wisconsin	34,831,360	1,317,525	3.8	1,950,556	5.6
Ohio	26,242,560	478,876	1.8	393,638	1.5
Indiana	23,017,600	339,068	1.5	506,387	2.2
Illinois	35,613,440	306,187	0.9	569,815	1.6
Iowa	35,817,600	302,552	0.8	250,723	0.7

APPENDIX VI

Department of Natural Resources Expenditures for Grants
 FY 1990-91 through FY 1999-2000

<u>County</u>	<u>Grants to Local Governments</u>	<u>Grants to NCOs</u>	<u>Total Grant Expenditures</u>	<u>County</u>	<u>Grants to Local Governments</u>	<u>Grants to NCOs</u>	<u>Total Grant Expenditures</u>
Adams	\$ 63,437	\$ 307,101	\$ 370,538	Marathon	\$ 526,844	\$ 3,255	\$ 530,099
Ashland	124,383	0	124,383	Marinette	78,084	0	78,084
Barron	47,341	0	47,341	Marquette	24,277	131,114	155,391
Bayfield	115,874	33,250	149,124	Menominee	0	0	0
Brown	2,137,866	315,218	2,453,084	Milwaukee	944,957	0	944,957
Buffalo	122,175	141,100	263,275	Monroe	311,646	0	311,646
Burnett	88,233	0	88,233	Oconto	133,966	0	133,966
Calumet	263,604	0	263,604	Oneida	144,221	0	144,221
Chippewa	148,425	0	148,425	Outagamie	1,148,917	8,934	1,157,851
Clark	243,278	0	243,278	Ozaukee	516,225	603,639	1,119,864
Columbia	84,032	194,624	278,656	Pepin	0	0	0
Crawford	82,690	0	82,690	Pierce	308,155	0	308,155
Dane	8,110,176	2,163,284	10,273,460	Polk	227,984	1,985,826	2,213,810
Dodge	613,367	64,400	677,767	Portage	591,211	21,987	613,198
Door	1,073,614	934,912	2,008,526	Price	150,784	0	150,784
Douglas	239,009	0	239,009	Racine	560,775	0	560,775
Dunn	168,087	17,159	185,246	Richland	90,673	0	90,673
Eau Claire	241,801	0	241,801	Rock	1,443,544	42,848	1,486,392
Florence	16,906	0	16,906	Rusk	276,768	0	276,768
Fond du Lac	385,006	0	385,006	Sauk	275,408	104,009	379,417
Forest	47,000	0	47,000	Sawyer	38,413	0	38,413
Grant	223,409	0	223,409	Shawano	309,355	0	309,355
Green	109,850	0	109,850	Sheboygan	650,992	0	650,992
Green Lake	73,450	0	73,450	St. Croix	390,807	31,555	422,362
Iowa	113,476	14,289	127,765	Taylor	119,475	0	119,475
Iron	35,131	0	35,131	Trempealeau	40,692	0	40,692
Jackson	168,822	0	168,822	Vernon	138,823	0	138,823
Jefferson	298,727	0	298,727	Vilas	177,162	168,350	345,512
Juneau	150,483	0	150,483	Walworth	664,837	471,273	1,136,110
Kenosha	192,240	0	192,240	Washburn	74,579	0	74,579
Kewaunee	229,415	0	229,415	Washington	1,553,066	1,276,071	2,829,137
La Crosse	504,796	202,448	707,244	Waukesha	3,913,435	352,880	4,266,315
Lafayette	322,744	0	322,744	Waupaca	338,291	23,477	361,768
Langlade	136,583	0	136,583	Waushara	157,705	0	157,705
Lincoln	153,875	0	153,875	Winnebago	886,127	149,182	1,035,309
Manitowoc	699,999	154,331	854,330	Wood	360,999	0	360,999
				Total	\$35,398,501	\$9,916,516	\$45,315,017

State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES



Tommy G. Thompson, Governor
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October 5, 2000

Ms. Janice Mueller, State Auditor
Legislative Audit Bureau
131 West Wilson Street
Suite 402
Madison, WI 53703

Dear Ms. Mueller:

The Department appreciates the opportunity to comment on the Legislative Audit Bureau's report on the Knowles-Nelson Stewardship Program. We support the four recommendations made by the Audit Bureau.

I was pleased with your audit findings that:

- the Department has complied with statutes and codes in issuing grants;
- the Department's process for determining eligible costs has ensured that local governments and NCOs have fully complied with the 50% match requirement of the program;
- the Department correctly determined grant amounts in all files reviewed;
- there were no cases where the Department made payments for ineligible costs or where grantees were paid too much.

DNR Supports the Report Recommendations

The report did note a lack of record-keeping consistency across regions and made the following recommendation:

We recommend the Department of Natural Resources establish record retention guidelines for grant files, specifying the number of years each type of record must be maintained.

The Department agrees with this recommendation. Staff within the Bureau of Community Financial Assistance began working on the establishment of *Records Disposition Authorizations* for all grant programs in June, 2000. Anticipated completion date is December, 2000. In addition, we are making changes in our electronic grant tracking system to provide better electronic records of grant activity including acreage totals. Those changes should be completed by April 1, 2001.

I was also pleased the Audit Bureau did not find any problems with the Department's appraisal standards and that most of our procedures for reviewing and approving appraisals are reasonable and consistent

with practices suggested by the Department of Revenue. We concur with the Audit Bureau's three recommendations to further strengthen the approval process for grants:

We recommend the Department of Natural Resources establish a policy that prohibits local governments and NCOs from submitting appraisals commissioned or paid for by the seller as part of the stewardship grant application process.

The Department agrees with this recommendation and will implement it in the next grant cycle.

Note: A local unit of government may have an obligation under Chapter 32 of the statutes, as an entity with condemnation powers, to consider an appraisal report commissioned by the seller as part of its valuation process. Notwithstanding this provision, the Department, in its role as grant administrator, will be able to implement the Audit Bureau's recommendation that such appraisals be disregarded for grant purposes. We will certify value based only on appraisals commissioned by the Department or grantee.

We recommend the Department of Natural Resources modify its appraisal review process for grants and allow the staff to develop a blended appraised value when appropriate.

The Department agrees with this recommendation and has already implemented it.

We recommend that for grants over \$200,000, the Department of Natural Resources independently obtain an appraisal separate from any appraisal submitted by grant applicants.

The Department agrees with this recommendation, however, s. 23.0917(7)(e) requires the applicant to submit two appraisals.

Establishing Fair Market Value

The report clearly supports the Department's position that assessed value is usually not an accurate reflection of fair market value. The Department of Revenue provided the Audit Bureau with several key reasons why this is the case:

1. Many assessments are out of date because the majority of local governments wait up to three years or longer to reassess property.
2. Demand for land (and concomitant development pressure) is so great in some areas that assessments can fall considerably below appraised value in a short time. As the Department of Revenue pointed out, this is particularly the case in growing metropolitan areas and recreational areas.
3. The Department of Revenue reviews assessments based on the average value of land for a municipal tax unit. Even if an entire municipality is assessed within the statutory 10 percent of market value, individual properties within the unit may be under-assessed by more than 10 percent.

I would like to take this opportunity to offer an explanation as to why the report analysis shows a higher average difference between assessed and appraised value for properties acquired by grant recipients than for those acquired by the Department. One reason, of course, is that the audit averages are based on a non-random sample and therefore cannot be projected to either the Department or the grant program as a whole. It is also important to note that local governments are more likely to acquire small properties in

rapidly developing areas where land prices are increasing very quickly as land transitions from agricultural to residential or commercial use. The Department, on the other hand, tends to acquire larger parcels of land in more rural areas where prices are somewhat more stable. This factor alone could account for the larger difference for grant projects.

I commend the Audit Bureau on their succinct discussion of two sometimes competing concerns: (1) the need of the Department and grant recipients to offer private landowners a fair price for their property so there is no perception that government is taking an owner's property without just compensation, and (2) the need to be frugal in spending public funds.

In closing, I would like to recognize the many valuable contributions made over the past ten years by private citizens who have donated cash, land, easements and materials for Stewardship projects to NCOs, local governments, and the Department. This is one of the outstanding positives of the program. Yet the report only notes that this could be perceived as a reason for grant recipients to have less direct interest in controlling costs. We need to issue a loud *Thank You* to the generous citizens of the State of Wisconsin who have made many of these Stewardship projects possible.

Thank you again for the opportunity to comment on the audit report. We appreciate the courtesy and professionalism of your staff throughout this process. I feel the Department and its partners have accomplished many significant land protection and recreational development projects in the first 10 years of the Stewardship Program. We remain committed to spending Stewardship funds judiciously while still preserving the best of Wisconsin's natural landscape for future generations. The recommendations in the report will help us achieve that goal.

Sincerely,

George E. Meyer
Secretary