



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

February 27, 2002

Joint Committee on Finance

Paper #1204

Warren Knowles-Gaylord Nelson Stewardship Program (DNR)

CURRENT LAW

DNR is authorized \$46 million in general obligation bonding authority for 2001-02 and \$60 million annually for 2002-03 through 2009-10 for the Warren Knowles-Gaylord Nelson Stewardship 2000 program. Beginning in 2002-03, \$45 million annually is specified for land acquisition and \$15 million for property development and local assistance. For local assistance grants, the grant applicant (generally a local government or non-profit conservation organization) must submit two appraisals if DNR determines the fair market value of the land exceeds \$200,000.

GOVERNOR

No provision.

DISCUSSION POINTS

1. In October of 2000, the Legislative Audit Bureau (LAB) released an evaluation of the Warren Knowles-Gaylord Nelson Stewardship program. Based on its findings, a number of recommendations were made to improve the program. Key amongst these was a recommendation that for grants over \$200,000, DNR should independently obtain an appraisal separate from any appraisal submitted by grant applicants. While DNR concurred with this recommendation, the Department indicated that application of this rule would be hindered by s. 23.0917 (7)(e), which requires the grant applicant to submit two appraisals for any project estimated to be over \$200,000

2. Under the Warren Knowles-Gaylord Nelson Stewardship program, DNR determines grant amounts based on reviews of property appraisals provided by grant applicants, who typically contract with private appraisers for this service.

3. However, the need to secure sufficient grant funding in order to undertake projects

may place pressure on interested applicants to secure the most favorable appraisals possible. These appraised property values affect the purchase price paid by local governments and nonprofit conservation organizations (NCOs) and the grant levels paid by DNR to acquire land (DNR generally awards up to 50% of approved appraisal amounts for local assistance grants). Further, to the extent appraised values exceed the purchase price, the grant applicant may be credited with a donation (applied toward their share of the costs of the project) for the difference.

4. While s. 23.0917(7)(e) does require the grant applicant to submit two appraisals, there is no statutory language prohibiting DNR from seeking a third appraisal. However, as appraisals are considered an eligible grant expense, DNR would generally pay 50% of the cost for appraisals contracted for by the grant applicant, should a grant be awarded. The Department would not be responsible for appraisal costs related to unsuccessful applications. Also, should an additional appraisal be required, DNR would need to either complete the appraisal with available staff or contract for the service (paying 100% of the cost). Therefore, requiring an additional appraisal would increase costs to the Department. While costs associated with appraisals can vary based on the size and location of the property, over the last three years costs averaged \$1,200 per appraisal.

5. As passed by the Legislature, the 2001-03 biennial budget contained a provision that would have deleted the statutory requirement under s. 23.0917(7)(e) that requires applicants to submit two appraisals for purchases of over \$200,000. Instead, the enrolled bill would have required grant applicants to submit at least one appraisal, and required DNR to independently obtain an additional appraisal, separate from any submitted by the applicant. Under this provision DNR would have paid for its appraisal and up to 50% of the cost of the applicant's appraisal. This provision was item vetoed in 2001 Act 16. The Governor item vetoed this provision, at least in part, due its potential to increase state costs because DNR would pay 100% of its appraisal, rather than 50% if an applicant had the appraisal done.

6. Since DNR generally pays 50% of the cost of two appraisals under current law, an alternative that would be more fiscally neutral for the state would be to require the grant applicant (local government unit or NCO) to pay for the cost of one appraisal of the property, and to require DNR to pay for a second appraisal if the applicant appeared eligible for a grant. If additional appraisals were required, the current 50% grant-eligibility cost share could be maintained. In this way DNR would, similar to current practice, pay for one appraisal (rather than one-half of two appraisals) and the grant applicant would pay for one appraisal (rather than one-half of two appraisals). Further, this alternative would meet the concern raised in the audit that an independent appraisal be obtained for more costly land purchases by NCOs and local governments. In addition, it could avoid the more costly alternative (under current law) of DNR having to commission a third appraisal at state expense if one or both of the appraisals submitted by the grant applicant appear inadequate.

7. Under the initial Stewardship program, DNR awarded 147 grants for projects costing \$200,000 or more between 1990 and 2000. Grant managers within the Bureau of Community Financial Assistance indicate that this number is likely to increase under Stewardship 2000 due to greater levels of available grant funding and general increases in property values.

8. Additional recommendations made by the Legislative Audit Bureau included prohibiting local governments and NCOs from submitting appraisals commissioned or paid for by the seller of the property as part of the stewardship grant application process, and a recommendation to allow DNR staff to develop a blended appraised value when appropriate. (This approach would allow DNR staff to choose various components from different appraisals of the same property to generate a new appraised value.) The Department has concurred with these recommendations and has incorporated them into their grant review process.

ALTERNATIVES TO BILL

1. Modify the statutory requirement under s. 23.0917(7)(e) that requires applicants to submit two appraisals for acquisition projects estimated by DNR to exceed \$200,000 to require grant applicants to pay for and submit one appraisal, and require DNR to independently obtain an additional appraisal, separate from any submitted by the applicant for eligible applicants. Allow DNR to require more than one appraisal from the applicant. However, specify that any additional appraisals required would be considered eligible expenses under the grant program. (DNR would pay up to 50% of the cost for any additional appraisals required, as under current law.)

2. Maintain current law. (Grant applicants would be required to submit two appraisals, reimbursable at up to 50%, for purchases exceeding \$200,000, and DNR could obtain an independent appraisal at state expense.)

Prepared by: Rebecca Hotynski and Daryl Hinz