

PERFORMANCE AUDIT

Land Banking Program

The Department of Natural Resources and Conservation

SEPTEMBER 2010

10P-08

REPORT SUMMARY

The Department of Natural Resources and Conservation should improve current Land Banking practices to better balance the short-and long-term impacts to trust beneficiaries.

Context

Established in 2003, the Land Banking Program provides the department with the ability to utilize proceeds from the sale of state trust land to purchase replacement trust land or improvements, which are likely to generate as much or more revenue than the land sold. The program completed its first sale in 2006. To date, the program has sold nearly 42,968 acres of trust land and purchased about 31,588 acres of replacement land. After the completion of audit work, the program acquired an additional 14,581 acres of timber land in July 2010. According to the program, while the land sold generated \$60,644 annually, land acquired is estimated to generate \$303,746 annually, providing greater revenue for trust beneficiaries. Since 2006, the program has acquired ten properties. There have been 504 parcels nominated for sale by the program. Parcels nominated for sale fall into five categories, namely sold, withdrawn, declined, active, and inactive. Of those 504 parcels nominated for sale, 179 parcels have been sold across the state. Other parcels nominated for sale are either under active

consideration of the department or have been removed from consideration for sale by the department or lessee who nominated the parcel for sale. Inactive sale nominations represent nominations which do not fit any of the other categories and are not actively being considered by the department.

Audit work examined how the program values land sold and acquired, determines parcel suitability, and projects rates of financial return on acquisitions. To do this, we reviewed program land sales and acquisitions through February 2010. The majority of parcels sold by the program are isolated without legal public access. Administrative rules for the program require that two appraised values be developed for sales, namely a value with and without access; however, audit work indicated that only 50 percent of appraisals provide both values as required by administrative rules. Audit work also identified inconsistencies in the selection of comparable properties by appraisers to support valuations. While the practice of appraising isolated land with legal access increases the price of a sale, it can also inhibit the program and provide a disincentive for lessees to participate. Audit work demonstrated valuing isolated parcels with legal access increased the appraised price between 20 to 70 percent. Subsequently, participants withdraw from the program. We found approximately 40 percent of participants withdraw from the program due to the appraised price. When a parcel is withdrawn from the program, it generally reverts to the leasing agreement between the department and the lessee, generating limited returns for beneficiaries. When this happens, it can take over 100 years for the department to generate revenue which matches the market value of the land. Presently, the department does not balance the short-and long-term impacts to beneficiaries of trying to sell an isolated parcel with legal access.

**Table 1
Land Sold and Acquired by Land
Classification Through February 2010**

Land Classification	Acres Sold	Acres Acquired
Agricultural	58.4	6,106.1
Grazing	42,907.5	20,806.6
Timber	0	4,257.8
Other	2	417.2
Totals	42,967.9	31,587.7

Source: Compiled by the Legislative Audit Division from department program records.

Audit work also noted a lack of active management for the program. We identified a general deference within the department to allow area land staff to individually

guide program activities rather than adhering to centralized set of practices. We noted inconsistencies in program documentation and the process used to identify suitable candidates for the program. This limited our ability to determine fully if the program is working as the legislature intended. The level of commitment to the program by area land offices varied, with some area land staff more actively engaged than others. Consequently, not all parcels which could be suitable candidates for the program are actively being considered. The department also does not have a formal process to evaluate the ongoing performance of acquisitions to determine if they are performing as expected.

Results

Audit recommendations address the need for the department to improve the appraisal process and strengthen management controls for the program. Recommendations include:

- Complying with administrative rules regarding the inclusion of two values in sales appraisals.

- Defining what constitutes a comparable for program sales.
- Considering the short- and long-term financial impacts to trust beneficiaries when trying to sell an isolated parcel with legal access.
- Determining when and where documentation should be retained to support program decisions.
- Establishing adaptable statewide guidelines for identifying parcels for sales and acquisitions and taking steps to ensure identified parcels fall within these guidelines.
- Establishing a formal process to periodically evaluate the performance of program acquisitions.

Recommendation Concurrence	
Concur	4
Partially Concur	1
Do Not Concur	
Source: Agency audit response included in final report.	