

**South Dakota (SD) Fiscal Year (FY) 2013 Wetlands Reserve Program (WRP) Easement Compensation
Proposed Market Analysis and Geographic Area Rate Cap (GARC) Methodology and Values
November 13, 2012**

The methods and values in this document were discussed and recommended by the WRP Subcommittee of the State Technical Committee on October 16, 2012, and the full State Technical Committee on November 7, 2012. The state conservationist certified the values on November 9, 2012, as shown on the attached certification form.

Geographic Areas:

For the purpose of establishing values for WRP enrollments, SD is divided into 18 geographic areas (see Map 1), the same as used in FY2010-FY2012. The division of these areas is based on a review of Major Land Resource Areas (MLRAs), percentage of land use by county, and market trends of land values. Larger county groupings have been reviewed; however, land values in the market analysis indicate too much variability within certain areas.

Within each geographic area there are two categories of land use: cropland and noncropland. These categories were selected based on the fact that a majority of land within the eastern portion of SD, where WRP enrollment is highest, can be categorized into one of these two categories. Cropland is considered land that has cropping history. Since the vast majority of cropland offered for enrollment into the WRP is nonirrigated, we have not developed GARCs for irrigated cropland. Noncropland is considered land that is used for haying or grazing (including rangeland and hayland) and does not have cropping history. A further breakdown of land use or land types (i.e., floodplain or pothole) was not done due to the small difference in land value. The value of the offer area is determined by calculating a per-acre value based on land use.

Market Analysis:

Data Source: *Area-Wide Market Analysis for the State of South Dakota* dated September 30, 2012. Completed by Williams & Associates, Marlette, Michigan.¹

The market analysis was contracted with Williams & Associates after a competitive bid process was completed. For the analysis, more than 500 sales were collected and studied, resulting in the final opinion of market value for the land classes. Counties that did not have adequate data to provide a value were supported by sales from adjacent and similar counties.

GARCs:

Data Source: South Dakota will utilize a report published by South Dakota State University (SDSU) titled *South Dakota Agricultural Land Market Trends 1991-2012*² to support the establishment of FY2013 GARCs. South Dakota State University conducts an annual farm real estate survey and compiles the information into this published report. The purpose of the report is to estimate agricultural land values by land use in the various regions of SD.

Methodology: The FY2013 GARCs have been developed in the same method as in the previous five years. South Dakota had a large (over 150 applications) WRP signup in FY2012 from which to judge the appropriateness of established GARC values. Wetlands Reserve Program offers were accepted at a rate of 88 percent in FY2012, slightly lower than the previous 2 years. Additionally, the dropout rate prior to making an offer was significantly higher than in previous years at 29 percent. This can be largely attributed to high land prices, high commodity prices (namely corn and soybeans), and areas of the state that had experienced flooding in recent years now becoming dry enough to farm. Due to the higher than normal dropout rate prior to making offers and an overwhelming consensus from staff, landowners, and partners that the market analysis values are lower than what land typical to that being enrolled into the program is selling for (which is supported by SDSU

data), SD will use a 90 percent residual value of the market analysis from which to set GARCs. This is an increase from 85 percent used in FY2012.

All FY2012 and FY2013 GARC values are depicted in Table 1. The lesser of the following FY2013 values will be paid depending on geographic area and land use of the offer area (unless a landowner offers less). All values are on a per-acre basis. For applicants selecting the 30-year easement option, 75 percent of this value will be offered.

Table 1. FY2013 Established Easement Values and Values Paid in FY2012:

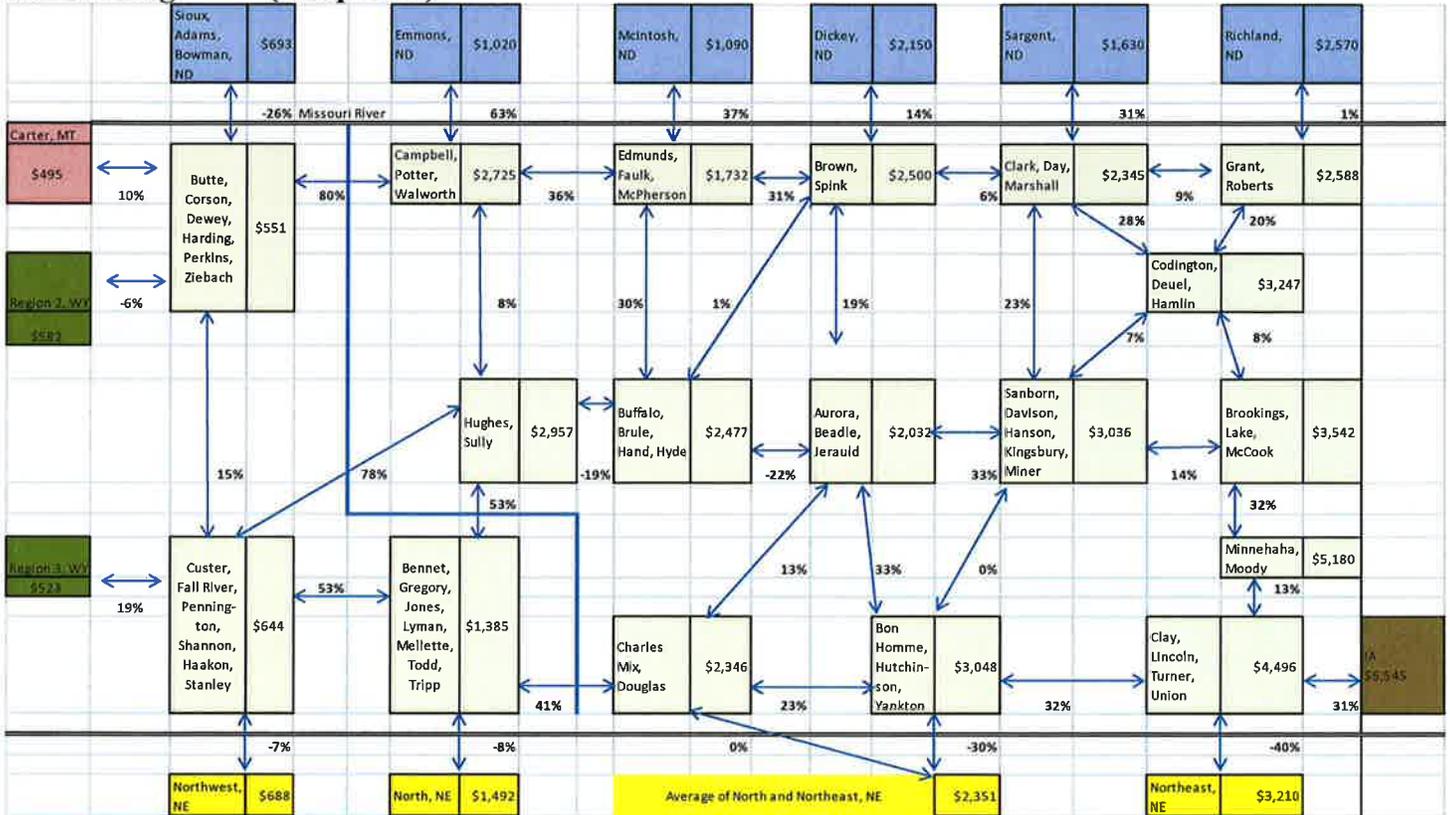
	2013						2012					
	Cropland			Noncropland			Cropland			Noncropland		
	Market Analysis	GARC	%									
Clay, Lincoln, Turner, Union	\$4,996	\$4,496	90%	\$2,206	\$1,985	90%	\$4,630	\$3,936	85%	\$2,184	\$1,856	85%
Bon Homme, Hutchinson, Yankton	\$3,387	\$3,048	90%	\$1,867	\$1,680	90%	\$3,011	\$2,559	85%	\$1,881	\$1,599	85%
Charles Mix, Douglas	\$2,607	\$2,346	90%	\$1,400	\$1,260	90%	\$2,430	\$2,066	85%	\$1,334	\$1,134	85%
Minnehaha, Moody	\$5,756	\$5,180	90%	\$2,639	\$2,375	90%	\$5,313	\$4,516	85%	\$2,539	\$2,158	85%
Brookings, Lake, McCook	\$3,935	\$3,542	90%	\$1,751	\$1,576	90%	\$3,628	\$3,084	85%	\$1,680	\$1,428	85%
Sanborn, Davison, Hanson, Kingsbury, Miner	\$3,373	\$3,036	90%	\$1,722	\$1,550	90%	\$3,034	\$2,579	85%	\$1,696	\$1,442	85%
Codington, Deuel, Hamlin	\$3,608	\$3,247	90%	\$1,499	\$1,349	90%	\$3,313	\$2,816	85%	\$1,493	\$1,269	85%
Grant, Roberts	\$2,876	\$2,588	90%	\$1,206	\$1,085	90%	\$2,721	\$2,313	85%	\$1,201	\$1,021	85%
Clark, Day, Marshall	\$2,606	\$2,345	90%	\$1,164	\$1,048	90%	\$2,400	\$2,040	85%	\$1,146	\$974	85%
Brown, Spink	\$2,778	\$2,500	90%	\$1,231	\$1,108	90%	\$2,609	\$2,218	85%	\$1,257	\$1,068	85%
Edmunds, Faulk, McPherson	\$1,924	\$1,732	90%	\$833	\$750	90%	\$1,687	\$1,434	85%	\$835	\$710	85%
Campbell, Potter, Walworth	\$3,028	\$2,725	90%	\$958	\$862	90%	\$2,129	\$1,810	85%	\$957	\$813	85%
Aurora, Beadle, Jerauld	\$2,258	\$2,032	90%	\$1,316	\$1,184	90%	\$2,078	\$1,766	85%	\$1,269	\$1,079	85%
Buffalo, Brule, Hand, Hyde	\$2,752	\$2,477	90%	\$1,248	\$1,123	90%	\$2,618	\$2,225	85%	\$1,216	\$1,034	85%
Hughes, Sully	\$3,286	\$2,957	90%	\$1,095	\$986	90%	\$2,512	\$2,135	85%	\$1,115	\$948	85%
Bennett, Gregory, Jackson, Jones, Lyman, Mellette, Todd, Tripp	\$1,539	\$1,385	90%	\$663	\$597	90%	\$1,452	\$1,234	85%	\$644	\$547	85%
Custer, Fall River, Haakon, Pennington, Shannon, Stanley	\$716	\$644	90%	\$493	\$444	90%	\$678	\$576	85%	\$477	\$405	85%
Butte, Corson, Dewey, Harding, Lawrence, Meade, Perkins, Ziebach	\$612	\$551	90%	\$380	\$342	90%	\$553	\$470	85%	\$383	\$326	85%

Upon review of the 2013 market analysis, it appeared that land values were low compared to what many reports of land sales have been in several counties. To confirm our thoughts that these values may be slightly outdated, we did a comparison by geographic area to SDSU's 2012 publication. The SDSU cropland values averaged 7 percent higher than the 2013 Williams & Associates market analysis. This difference further supports our use of a 90 percent residual value.

Differences over 20 percent between counties within SD and adjacent states: An analysis of value differences between GARCs within SD was completed to determine where differences over 20 percent occurred, why it occurred, and if the difference is warranted. Diagram 1 illustrates the differences between areas within the state. There are several areas where the difference is greater than 20 percent. However, by looking at the market analyses and SDSU publication on market trends from the past three years, these differences remain consistent across time. This indicates that these differences are due to fairly constant factors such as topography, land use, and the proximity of larger metropolitan areas. For example, there is a large (up to 80 percent) difference in easement value between counties divided by the Missouri River. This difference in land values has persisted in SD due to land type and has been widened in recent years with the boom in cropland values. Much of the land west of the Missouri River is not suitable for farming or has very low productivity. It is widely known within the state that production potential and land values generally decrease from the southeast (SE) corner to the northwest (NW) corner of the state. The SE corner of SD receives the highest amounts of precipitation and is considered to be in the Midwest Corn Belt, while the NW corner of the state is considered arid to semi-arid and consists primarily of native rangeland. The GARCs with a noticeable difference in 2013 are the county groupings of Campbell and Hughes. These two geographic areas increased dramatically from FY2012 (51 percent and 39 percent, respectively). In discussing the jump in land values with local field offices and landowners, it appears the market analysis is representative of what is occurring in the counties for land sales; this is also supported by SDSU's publication.

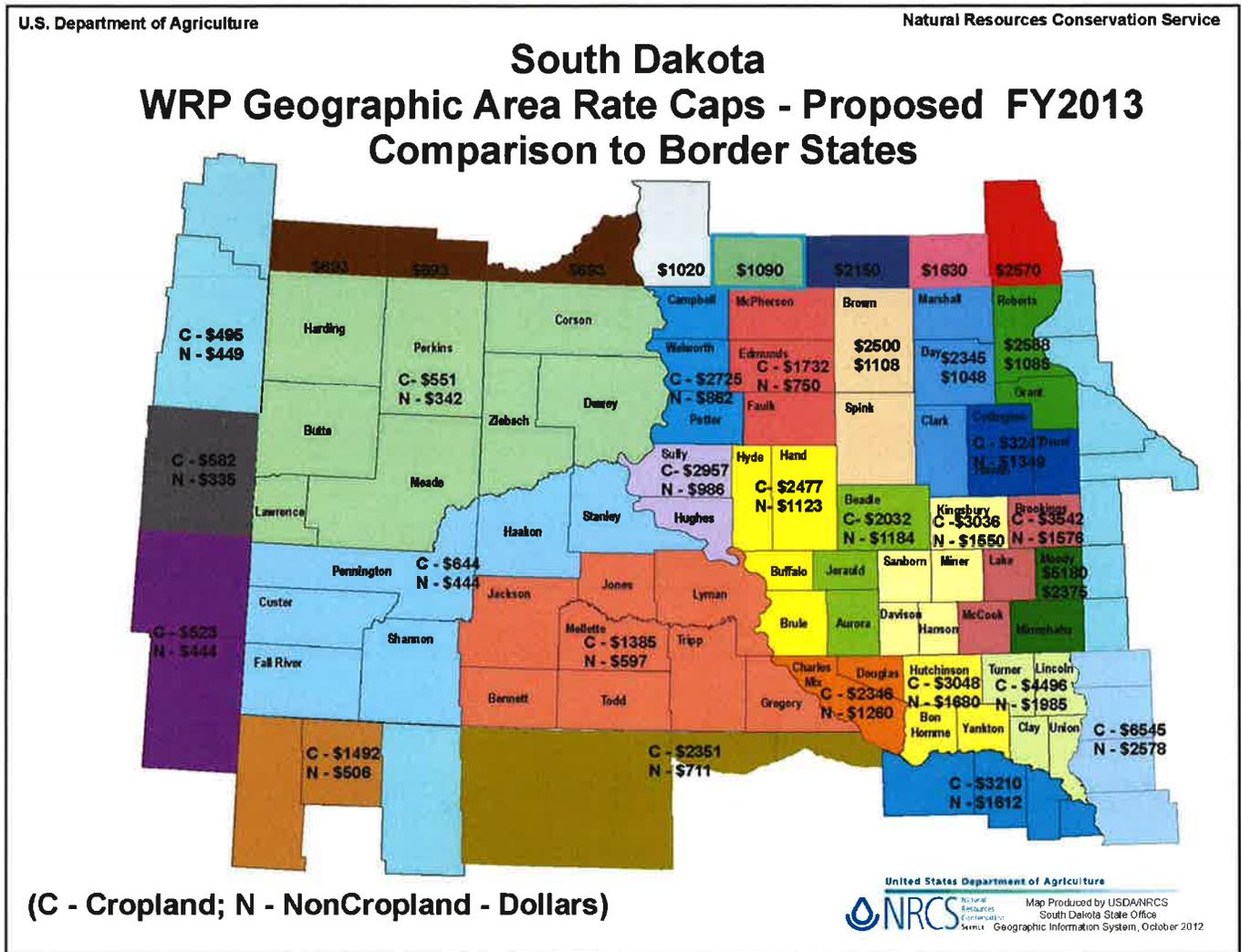
Differences between SD counties and border states' GARCs were also analyzed and are depicted in Diagram 1. South Dakota cropland values are higher than the North Dakota (ND) GARCs in all but two border counties; this is due in large part to the fact that ND does not distinguish between cropland and noncropland. When the SD cropland and noncropland values are averaged, it is very similar to the ND values. When looking at Nebraska (NE) easement values, there are two counties in SD, Charles Mix and Bon Homme, which are 38 percent higher than the NE counties. This GARC has consistently been higher than the NE counties to the south over the past three years. Iowa (IA), even more so than SD, has experienced a significant increase in cropland values over the last year; therefore, the difference between the SD county grouping that touches IA is larger (31 percent) than in previous years. South Dakota GARCs in the western part of the state are within 20 percent of Montana (MT) and Wyoming (WY) GARCs. As of the date of this methodology, Minnesota (MN) values were not yet known; however, values have typically been within 20 percent, with the MN values higher on average.

Diagram 1. Percent difference in cropland GARC values between geographic areas within SD and surrounding states (except MN).



GARCs over \$5,000: This is the first year that SD has had a GARC value of over \$5,000. The geographic area of Minnehaha/Moody Counties has a GARC of \$5,180 on cropland. Moody County currently has over 70 easements in place, many along the Big Sioux River corridor. The Big Sioux River is listed as one of the most impaired rivers in SD and is one of the primary water sources for Sioux Falls, the largest city in SD. In FY2012, the East Dakota Water Development District partnered with Northern Prairies Land Trust and SD Association of Conservation Districts and was funded for a Wetlands Reserve Enhancement Program (WREP) project that targeted the many impaired streams and rivers in this part of the state. Although land values in these two counties that border MN have soared over the last five years, there is still program interest and an even greater need to protect the river corridors and associated wetlands to improve water quality.

Map 1. SD FY2013 GARC rates and adjacent states' FY2013 GARCs (values for MN were not available).



Should an offer area encompass lands not typically offered for WRP, the Natural Resources Conservation Service programs staff will consider conducting an appraisal of the property. This will only be used in rare situations where there are impacts to the value of the land that are not typical, such as developmental pressure.

References:

- ¹ Williams, Mark. September 30, 2012. Area-Wide Market Analysis for the State of South Dakota. Williams & Associates, Inc. Marlette, MI.
- ² Janssen, Larry and Burton Pflueger. June 2012. South Dakota Agricultural Land Market Trends 1991-2012. Ag Expt. Station Publication C278. South Dakota State University, Brookings, South Dakota.

2013 WRP Valuation and GARC Certification Coversheet

Fair Market Value: State will use the following methods to determine fair market value (check all that will apply and describe in supporting documentation):

- Areawide market analysis prepared by an independent real estate professional
- Areawide market survey prepared by recognized academic expert
EPD approval date to use market survey _____
- Appraisals (note: compensation uncertainty and obligation delays may complicate obligations)

Geographic Area Rate Cap: Identify sources or types of information that were considered in developing the GARCs (check or list below all that apply). Elaborate on how this information was used and provide calculations in supporting documentation.

The GARCs should reflect the value that the State Conservationist determines to be fair compensation for the rights being acquired. Although NRCS is acquiring a majority of the property rights associated with the land, the landowner still retains certain reserved rights; as a result, the GARCs will always be less than the fair market value as determined by the AWMA or appraisal. States may set the GARCs at an amount lower than the strict value of the rights being acquired, but they may not increase it above this value.

- Data sets of previously obtained WRP appraisals
- Local real estate market values, tax rates, and assessments
- Location of the land
- Soil types and productivity
- National, State, or local agricultural statistics
- Local information about the value of land leases for the rights being acquired by the Federal Government
- Historic values accepted and rejected by landowners for program participation
- Rates paid by other conservation easement programs that have similar purposes
- Neighboring geographic areas

Additional sources of information used: See Methodology

Date reviewed with State Technical Committee: 11-7-2012

Approved by State Conservationist:

Signature

11-9-2012
Date