



Review of Department of Natural Resources' Leasing of State-Owned Aquatic Lands

Proposed Final Report
Joint Legislative Audit & Review Committee
June 18, 2008

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Review Directed by 2007-09 Operating Budget Proviso



Overview

- Directed to include:
 1. **Basics of leasing:** How are aquatic lands classified for leasing? What is the lease base? How are lease rates determined? How much money is generated?
 2. **Alternative methods:** What alternatives have been explored? What are the advantages and disadvantages of various alternatives?

Statute Defines Lease Categories and Preferred Uses



Leasing Basics

- ❑ Four main use classifications for leases:
 - Water-dependent uses (e.g., marinas)
 - Nonwater-dependent uses (e.g., hotel)
 - Multiple uses (e.g., marina with a restaurant)
 - Aquaculture (e.g., shellfish production)
- ❑ Statute directs method used to set rate for each type of lease.
- ❑ Statute states that water-dependent uses are favored.

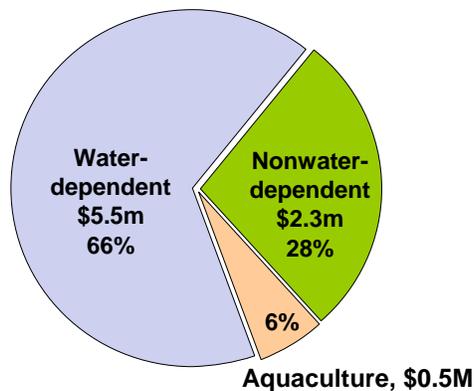
Water-Dependent Leases a Revenue Driver



Leasing Basics

- ❑ \$8.3 million in total lease revenues in Fiscal Year 2007

Type <i>(Nov 2007)</i>	#
Water-dependent	1,284
Nonwater-dependent	159
Aquaculture	142
TOTAL	1,585



Primary Question: How to Set Value and Rate for Water-Dependent Leases?



Leasing Alternatives	Per Acre Assessed Value of Upland Parcel	\$100,000
	X	X
	30%	30%
	X	X
	Area of Lease	1.5 acres
	<hr/>	<hr/>
	Aquatic Land Value	\$45,000
X	X	
Real Return Rate	5%	
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Annual Lease Rate	\$2,250	

Developed Ranking Criteria and Reviewed 11 Methods for Setting Water-Dependent Leases



- | | |
|----------------------|---|
| Leasing Alternatives | <ul style="list-style-type: none"> <input type="checkbox"/> Worked with real estate valuation expert to develop criteria for ranking methods. |
| | <ol style="list-style-type: none"> 1. Payment of Market Rent - Rent is fair compensation for use: fairness means comes close to what “market” would charge. |
| | <ol style="list-style-type: none"> 2. Equitable Treatment - Identical parcels pay same rent. |
| | <ol style="list-style-type: none"> 3. Administrative Burden - How many hours (or other unit of work) to determine rent. |

Ranking Results: No One Method Ranks Best for All Criteria



Leasing Alternatives

Examples of Methods and Rank:

→ **Negotiated Fair Market Value** (based on negotiation and appraisal) ranked best at Payment of Market Rent and Equitable Treatment, but next to last in Administrative Burden.

→ **Zone Model** (establish rents by zone) ranked third from last in Payment of Market Rent, but third best in Equitable Treatment, and best at Administrative Burden.

(Ranking of all 11 methods found on page 15 of report.)

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Other Criteria May be Important



Leasing Alternatives

- ❑ In 2003, Legislature changed lease formula for marinas. Criteria: *Maintain revenues* and be based on a *% of income*, provided certain data was collected. Repealed before implemented.
- ❑ Asked real estate valuation expert what the most likely *private sector* approach would be: **Negotiated Fair Market Value.**
- ❑ Expert acknowledges formula-based approaches have lower administrative burden.

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Conclusion: Most Important Criteria Ultimately a Policy Choice



Conclusion

- ❑ If *Payment of Market Rent* and *Equitable Treatment* are most important, choice is **Negotiated Fair Market Value**.
- ❑ If low *Administrative Burden* is most important, choice is **current method** or some other **formula-based** approach.
- ❑ If closely resembling *private sector* is most important, choice is **Negotiated Fair Market Value**.

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