

Gravel Pits:
The Effect on Neighborhood
Property Values

Prepared by
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for
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The Department of Environmental Quality
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Appraisal Research Group

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February 27, 1998

Steve Welch
State of Montana Department of Environmental Quality
1520 E. 6th Avenue
P.O. Box 200901
Helena, Montana 59620-0901

Dear Mr Welch:

In accordance with our agreement of February 4, 1998, I have prepared and now present the study which was the subject of that agreement. The stated purpose of that agreement was to determine "whether the existence of a gravel pit and gravel crushing operation impacts the value of surrounding real property."

The subject gravel pits are located approximately seven miles north of Bigfork, Montana on the east side of Highway 35.

The attached report includes my research, analysis, and conclusion which are consistent with the terms of our agreement and with the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Institute.

Sales of residential properties located within the area of influence -- 1/2 mile radius of the gravel pits -- from 1994 to the most recent in October, 1997 were compared to the sales of similar properties located in areas outside the influence of a gravel pit. The goal was to determine whether a price differential between an influenced property and an uninfluenced property could be detected and attributed to the influence of the gravel pits.

As a result my investigation of the properties and analysis of the information gathered, and subject to the assumptions and limiting conditions stated in the report, it is my opinion as of February 15, 1998, that the subject gravel pits had not adversely affected the value of the surrounding real property. If the gravel pit activity reverts to the operational level of 1994 through 1996 (prior to the summer of 1997), there is no market evidence to suggest that property values will be affected in the future.

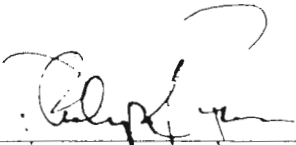
Sincerely,


Philip J. Rygg, MAI

Certification

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinion, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent on an action or event resulting from the analyses, opinion, or conclusion in, or the use of, this report.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report.


Philip J. Rygg, MAI

QUALIFICATIONS OF THE APPRAISER

COLLEGE EDUCATION

B.A. Economics and Political Science, Concordia College, Moorhead, Minnesota

SPECIALIZED EDUCATION

Appraisal Institute

- 1A1 Real Estate Appraisal Principles
- 1A2 Basic Valuation Principles
- 1B1 Capitalization Theory and Techniques I, Portland University
- 1B2 Capitalization Theory and Techniques II, Portland University
- 1B3 Capitalization Theory and Techniques III, Portland University
- 2-1 Case Studies in Real Estate Valuation, Indiana University
- 2-2 Valuation Analysis and Report Writing, Indiana University

Statistical Analysis of the Real Estate Market, Indiana University

Feasibility/Market Analysis, James A. Graaskamp, A.I.

Subdivision Analysis, A.I.

Commercial Construction Evaluation, A.I.

Easement and Right of Way Evaluation, A.I.

Accrued Depreciation, A.I.

Applied Sales Comparison Approach, A.I.

Fair Lending and the Appraiser, A.I.

Limited Appraisals and Appraisal Reporting Options, A.I.

Real Estate Risk Analysis, A.I.

Standard of Professional Practice, A.I.

Timber Valuation, A.I.

Americans With Disabilities Act Seminar, A.I.

REALTORS National Marketing Institute

CI 101 Fundamentals of Commercial Investment Analysis

CI 102 Market Analysis and Feasibility Studies

CI 103 Advanced Real Estate Taxation

CI 104 Case Studies in Commercial Investment Analysis

CI 105 Skill and Techniques of Effective Communication

Other Courses

Valuation of Business Opportunities, Business Marketing Corporation

Real Estate Law and Practice, Montana Real Estate Institute

PROFESSIONAL DESIGNATIONS

MAI Member of the Appraisal Institute

CCIM Certified Commercial Investment Member of the National Association of Realtors

ASSUMPTIONS AND LIMITING CONDITIONS

1. **LIMIT OF LIABILITY:** The liability of Appraisal Research Group and Philip J. Rygg and employees is limited to the client and to the fee collected. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The Appraiser assumes no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property: physically, financially, and legally.
2. **COPIES, PUBLICATIONS, DISTRIBUTION, USE OF REPORT:** Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use: the physical report(s) remains the property of the Appraiser for the use of the client, the fee being for the analytical services only.
3. **CONFIDENTIALITY:** This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis set forth in the report were prepared by the Appraiser whose signature appears in the appraisal report. No change of any item in the report shall be made by anyone other than the Appraiser. The Appraiser and firm shall have no responsibility if any such unauthorized change is made. The Appraiser may not divulge the material contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designee as specified in writing except as may be required by the Appraisal Institute as it may request in confidence for ethics enforcement, or by a court of law or body with the power of subpoena.
4. **TRADE SECRETS:** This appraisal was obtained from Appraisal Research Group and consists of "trade secrets and commercial or financial information" which is privileged and confidential and excepted from disclosure under 5 U.S.C. 552 (b) (4). Notify the appraiser signing the report of any request to reproduce the appraisal in whole or in part.
5. **INFORMATION USED:** No responsibility is assumed for the accuracy of information furnished by the work of others, the client, his designee, or public records. The Appraiser and firm IS not liable for such information or for the work of possible subcontractors. Be advised that some of the people associated with Appraisal Research Group and possibly signing the report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other source thought reasonable and reliable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds for subject property.
6. **TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICES:** The contract for appraisal, consultation or analytical service is fulfilled and the total fee is payable upon completion of the report. The Appraiser or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if any, are included for the same purpose as of the date of the photos. Site plans are not surveys unless shown from separate surveyor.

8. LEGAL ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL NATURE HIDDEN COMPONENTS, SOIL: No responsibility is assumed for matters legal in character or nature, nor matters of survey, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the client, his designee, or as derived by the Appraiser.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils, and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance), and such. The client, lender and/or owner should inspect the property before any disbursement of funds; further it is likely that the client, lender or owner may wish to require mechanical or structural inspections by qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural, or other components. The Appraiser has not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The value estimate considers there being no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm however soil conditions in the area are unknown. The Appraiser does not warrant against this condition or occurrence of problems arising from soil conditions.

The appraisal is based on there being no hidden, inapparent, or apparent conditions of the property site, subsoil or structures or toxic materials which would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them. All mechanical components are assumed to be in operable condition and status standard for properties of the subject type. Conditions of heating, cooling, ventilating, electrical and plumbing equipment is considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. No judgment is made as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment which is assumed standard for subject age and type.

The Appraiser assumes no responsibility for any costs or consequences arising due to the need, or the lack of need for flood insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for flood hazard insurance.

9. LEGALITY OF USE: The appraisal is based on the premise that there is full compliance with all applicable federal state and local environmental regulations and laws unless otherwise stated in the report; further that all applicable zoning, building and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private

entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

10. **COMPONENT VALUES:** The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

11. **AUXILIARY AND RELATED STUDIES:** No environmental or impact studies, special market study or analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.

12. **DOLLAR VALUES, PURCHASING POWER:** The market value estimated, values used, and the costs used are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and price of the dollar as of the date of the value estimate.

13. **MANAGEMENT OF THE PROPERTY:** It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management, neither inefficient nor super efficient.

14. **FEE:** The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself.

15. **INSULATION AND TOXIC MATERIALS:** Unless otherwise stated in this report, the Appraiser signing this report has no knowledge concerning the presence or absence of toxic materials and/or urea-formaldehyde foam insulation in existing improvements; if such is present the value of the property may be adversely affected and re-appraisal at additional cost necessary to estimate the effects of such.

16. **CHANGES AND MODIFICATIONS:** The Appraiser reserves the right to alter statements, analysis, conclusions, or any value estimate in the report if there becomes known to him facts pertinent to the appraisal process which were unknown when the report was finished. This appraisal report and the conclusions contained herein are subject to change if physical or legal entity or financing is different than that envisioned in the report.

ACCEPTANCE OF, AND/OR USE OF THIS APPRAISAL REPORT BY CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE LIMITATIONS AND CONDITIONS.

Purpose and Use of the Report

The purpose of this report is to determine whether the presence of an operating gravel pit impacts the value of neighboring properties. This report will be used to assist the Department of Environmental Quality in administering the opencut mining permit process.

Location and Ownership of the Subject Property

The property that is the subject of this study consists of two opencut mining operations (gravel pits) that are immediately adjacent to each other. They are located seven miles north of Bigfork, Montana on the east side and adjacent to Highway 35 at the southeast corner of the intersection of Lindsey Lane. More specifically, Tracts 7F and 3A in the NW 1/4 of Section 26, Township 28N, Range 20W. The reputed owners of Tract 7F are James J. Clouse and Marti Jo Clouse. The reputed owners of Tract 3A are Al Schellinger and Arnold A. Mohl.



Subject Gravel Pits, View to West

Zoning

The area of the subject gravel pit is currently unzoned. However, an application to implement zoning has been filed with the Flathead Regional Development Office. If enacted, the new zoning ordinance would prohibit commercial development in the area. Gravel pits would be allowed under conditional use permits which would be subject to the approval of the Flathead County Commission.

Effective Date of Study

The effective date of this report is February 15, 1998. The study encompassed a period of time from February 1, 1998 to March 5, 1998. The study utilizes sales data from 1993 to 1998.

Facts to be Considered

The owners of the subject gravel pits have applied to the Montana Department of Environmental Quality for a permit to expand the size of the pit from 8.5 acres to 33.7 acres. As of the date of this study, and at least for the previous year, the size of the pits which are the subject of this study, include an area that is at least 40 acres. The permit would require complete reclamation of both pits to a level suitable for homesites, livestock, and/or wildlife habitats by the year 2008.

In addition, the permit includes the following restrictions and assurances:

1. Neighborhood water quality and quantity will be protected.
2. The pit operation is limited to a gravel crusher, wash plant, cement batch plant, and pug mill.
3. The hours of operation are restricted to 6 a.m. to 7 p.m. Monday through Saturday.
4. The size of the open mining area will not exceed 33.7 acres;
5. Fueling areas must be lined and bermed to contain spills.

Problem to be Considered

While in operation, gravel pits create noise, dust, traffic, fumes, and other sensory stimuli that may be considered unesthetic, damaging, and/or detrimental to neighborhood homeowners. Citing an increase in the amount of noise, dust, traffic, and fumes, all of which may result in a devaluation of their property values, neighborhood property owners are protesting the issuance of this permit. The problem to be considered in this study is whether these stimuli have a diminutive effect on the value of the neighboring properties; specifically, on properties located within a one half mile radius of the gravel pit. The scope of this study is to analyze the effects of the pits as they presently exist. It does not

anticipate a higher intensity of operation, i.e. more truck traffic, more dust and noise, etc.

In appraisal terminology, an adverse effect on value which results from external forces is called Economic Obsolescence.

"Economic Obsolescence, caused by adverse environmental factors, results in some degree of market rejection, and the extent of this item of depreciation is the extent of the loss in market value. Since economic obsolescence is not inherent in the improvements, its adverse effect on value may affect the land value, the improvement value, or both." (The Appraisal of Real Estate, American Institute of Real Estate Appraisers, 430 N. Michigan Ave, Chicago, IL, Page 258)

Methodology Employed

The methodology employed is a sales comparison technique that seeks to develop a percentage difference between the values of properties influenced by the presence of the gravel pit versus properties that are not influenced. Actual sales of properties that are influenced must be compared to similar properties that are not influenced. For example, a ten year old 2000-square foot house with a double car garage on a one-acre tract located within the influence of the gravel pit sold for \$80,000, and a similar house -- ten years old, 2000-square feet, double car garage, one-acre tract -- located in a different, but economically equivalent, neighborhood without a gravel pit sold for \$100,000. One might conclude that the 20% price differential was due to the adverse influence exerted by the gravel pit. If the properties are not similar and cannot be compared one on one, they must be adjusted to account for differences. The adjustments are extracted from the market and include date of sale, size, physical characteristics, age, land value differences, and others. If there is a difference between the price of the influenced property and the price of the uninfluenced property that cannot be attributed to other causes, it may be due to the influence wielded by the gravel pit. If a significant number of "pairings" demonstrate a reliably uniform trend, one may conclude that the presence of a gravel pit impacts the value of the surrounding real estate.

Assumptions and Conditions

The conclusions contained in the report are subject to the following assumptions and conditions:

1. Enforcement by the Montana Department of Environmental Quality of the permit conditions and restrictions which include but are not limited to those listed on page 8 of this report.
2. Future pit operation activity to be consistent with 1994 - 1996 levels until reclamation in year 2008.
3. Reclamation of the subject gravel pit land must be completed no later than prescribed in the permit application.

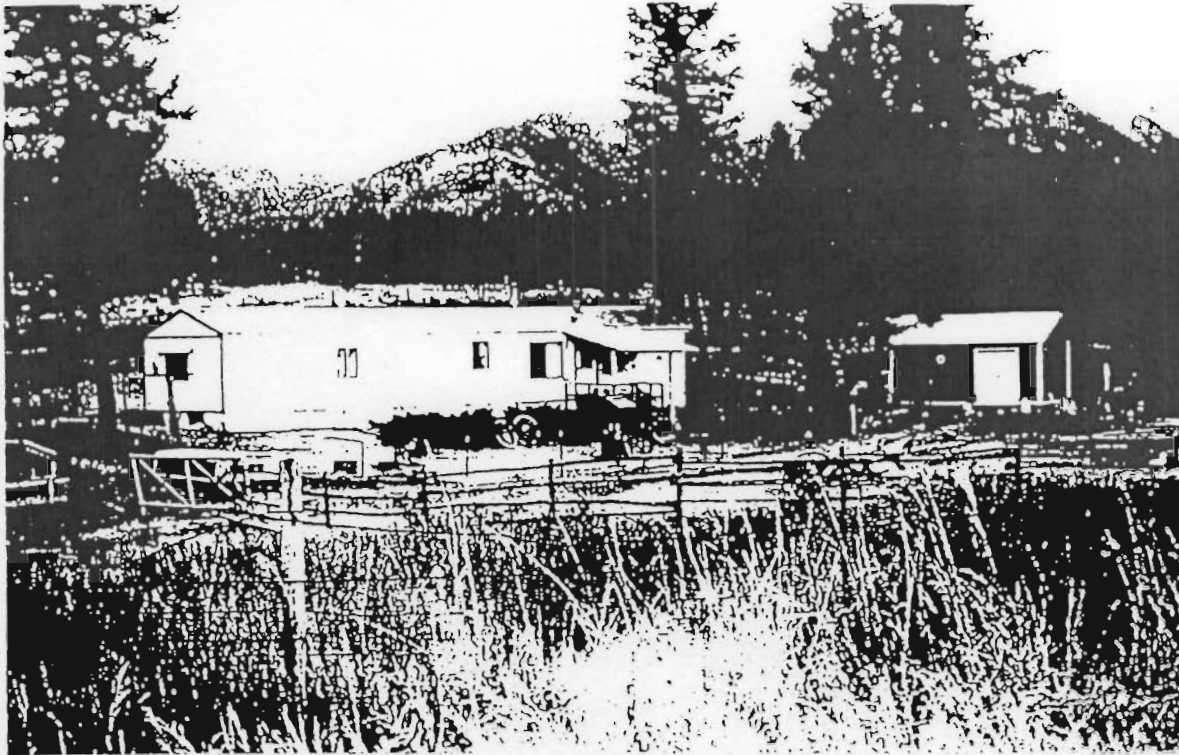
Sales Analysis

The following analysis includes two groupings of properties. Pictured and described are sales of properties located in the neighborhood of the subject gravel pits. These sales are identified as Subject Sales and as such, are influenced and affected by their proximity to the gravel pits. The second group includes sales of properties that are located outside the influence of any gravel pit. They are identified as Comp Sales and for reference, given the letter of the corresponding Subject Sale and an arbitrarily assigned number, e.g. A1, B2, C3, etc.. A brief description of each comp sale can be found on the Comparable Sales Chart (Page 25). A more complete description is maintained in the appraisers work file.

If the presence of the gravel pits adversely affects the value of the subject sales and by extension, the rest of the neighborhood, it would manifest in a sales price that is lower than the price received if the gravel pits were not present. Therefore, each subject sale is compared to a grouping of comp sales that reflect a high degree of similarity to the subject sale, but which are located in neighborhoods without gravel pits. Price differences that cannot be explained by such factors as age, size, quality, location, etc., may be ascribed to the influence of the subject gravel pits on the Subject Sale.

Except as otherwise noted, all comp sales are located in unzoned areas of Flathead County that, in terms of economic forces, are reasonably similar to the neighborhood of the subject. Locational and land value dissimilarities, if any, are noted in the analysis. The Comparable Sales Chart may serve as a useful reference while reading the analysis.

Subject Sale A



Date of Sale: September 28, 1994
Sale Price: \$62,500, \$1,000 down, 10% , \$657.29/month
Location: Tract 7 26 28 20
Lot Size: 5 acres
Finished SF: 924 SF (14'X66' 1987 Fleetwood Briarwood)
Price per SF \$67.64
Basement: None
Garage: None
Outbuilding: Numerous storage buildings
Age: 7 years
Style Singlewide
View: Restricted, primarily of the gravel pit and surrounding homesites.

Comments: This property is located adjacent to the subject gravel pits. The operation can be seen from this property; noise levels from trucks and gravel crusher would be high, and with no tree cover, dust from the pit operation would certainly infiltrate the improvements on this property. A single wide mobile home on five acres that sold for \$62,500 in 1994, this property is compared to mobile home properties throughout Flathead Valley that are reasonably similar in terms of

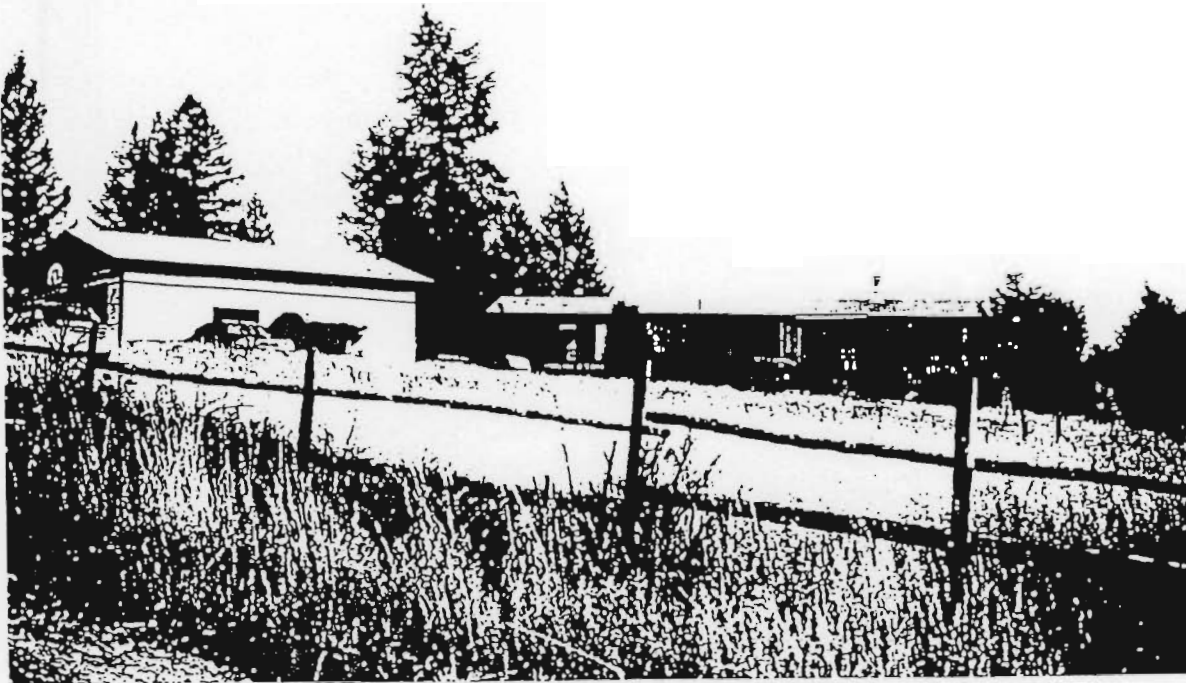
size and physical characteristics. The subject property indicates a per square foot price including land of \$67.64. The range provided by the comparable sales is \$74.49 to \$89.29, amounts which are substantially higher than that indicated for the subject. The following analysis seeks to solve for this discrepancy.

Analysis: The land size for each comparable is equal to the land size of the subject. However, Comp Sale A7 land is located in an area that commands a higher price per acre than that commanded in the subject area. Comp Sales A1, A2, A3, A4, and A7 have outbuildings that are superior to the subject's. The A5 mobile home is much newer than the subject and in this respect, superior. (Comparing A5 with resale A6 it appears that there is some appreciation in value between April, 1996 and April, 1997, hence A5, the sale closest in time to the subject, is more reliable.) If one were to allocate \$7500 to the shop buildings included with A1 and A2, the resulting per square foot value indications would be \$70.13 and \$66.83 respectively. In terms date of sale, location, and physical similarity, A1 and A2 bear the highest degree of similarity to the subject. At \$67.64 per square foot, the subject is within the range indicated by the comparables, hence no economic depreciation is detected.

262,500, 21,000 down, 10% , 262,500/month	Sale Price:
Tract 7 26 28 20	Location:
2 acres	Lot Size:
924 SF (14'X66' 1987 Fleetwood Briarwood)	Finished SF:
267.64	Price per SF:
None	Basement:
None	Garage:
Numerous storage buildings	Outbuilding:
1 year	
Singlewide	
Restricted, primarily of the gravel pit and surrounding	

Comments: This property is located adjacent to the subject gravel pits. The operation can be seen from this property; noise levels from trucks and gravel crusher would be high, and with no tree cover, dust from the pit operation would certainly infiltrate the improvements on this property. A single wide mobile home on five acres that sold for 262,500 in 1994, this property is compared to mobile home properties throughout Flathead Valley that are reasonably similar in terms of

Subject Sale B



Date of Sale: June 30, 1995
Sales Price: \$100,000, \$15,000 down, 8.5% , 10 years
Location: Tract 7E 26 28 20
Lot Size: 2 Acres
Finished SF: 1586 SF (Highland Park mobile home)
Basement: None
Garage: Double Detached (24' X 32')
Outbuildings: None
Age: 2 years
Style: Doublewide mobile home
View: The view is of the countryside to the west.
Comments: Like Subject Sale A, Subject Sale B is located adjacent to the subject gravel pits. In terms of direct exposure to the effects of the pit operation, this property is probably influenced to a greater extent than the other subject sale properties. A double wide mobile home located between Lindsey Lane and the

subject gravel pits, this subject sale is compared to other double wide mobile homes that are reasonably similar, but not influenced by a gravel pit operation.

Analysis: The subject sale indicates a per square foot value, including land, of \$63.05. The comparable sales indicate a range of \$53.75 to \$67.30. All three comparable sales have a high degree of similarity to the subject. B2, representing the high end of the bracket, has creek frontage and hence more valuable land. B1 is older than the subject which may explain the lower price (per square foot). Comp Sale B3 is newer than the subject and in a superior location, yet sold for less money. Other than basic market imprecision, there appears to be no explanation for this discrepancy. The subject is well within the bracket and there is no indication that it may be adversely influenced by the presence of the subject gravel pits.



Date of Sale:	June 30, 1992
Sales Price:	\$100,000, \$12,000 down, 8.2%, 10 years
Location:	Tract 7E 26 28 20
Lot Size:	2 Acres
Finished SF:	1284 SF (Highland Park mobile home)
Basement:	None
Garage:	Double Detached (24' X 32')
Outbuildings:	None
Age:	2 years
Style:	Doublewide mobile home
View:	The view is of the countryside to the west.
Comments:	Like Subject Sale A, Subject Sale B is located adjacent to the subject gravel pits. In terms of direct exposure to the effects of the pit operation, this property is probably influenced to a greater extent than the other subject sale properties. A double wide mobile home located between Lindsey Lane and the

Subject Sale C



Date of Sale: June 1, 1996
Sales Price: \$130,000
Location: Tract 7DC 26 28 20
Lot Size: 2.73 Acres
Finished SF: 1460 SF
Basement: None
Garage: Single attached, Double detached.
Outbuildings: Carport
Age: 18 years
Style: Ranch
View: Restricted to trees on site.

Comments: Subject Sale C is located approximately 1/8 mile south of the gravel pits on the south side of private road that also provides access to Comparable Sale A1. The area is wooded. Exposure to the subject gravel pits is limited. There is no visual exposure; sound, smell, and dust exposure would be less than that experienced by Subject Sales A and B.

Analysis: Comp Sales C1 and C2 are the same property; the first sale occurred in August 1996 and the second in June, 1997. A difference of 2 percent between August 1996 and June, 1997 -- 10 months -- is noted, although it is probably suggestive of market imprecision rather than appreciation. The value range indicated by the comparable sales is \$43.90 to \$77.05. The subject sold for \$89.04, well above this range. Comp Sale C1 and C2 (the same property) is centrally located in the Flathead Valley which is somewhat superior to the location of the subject; however, the value difference, if any, is probably offset by the greater size of the comparable sale site -- 2.73 acres versus 2.01 acres. In addition to the 1,528 square feet on the main floor, the sale has a daylight basement with 1456 finished square feet. The subject was built in 1978 and the comparable in 1984. The comparable has an attached 2 car garage versus the subject's attached single and detached double car garage. On balance, the comparable sale is superior to the subject, yet on a per square foot basis, it sold for much less than the subject -- a difference that is obviously attributable to the finished basement and hence greater size of the comparable sale. The whole dollar amount of \$130,000 for the subject versus \$131,000 for the comp reflects only a \$1,000 increase for a much superior property.

Comp Sale C3 is a new home located in an area that is locationally similar to the subject. It has 2.00 acres versus the subject's 2.73 acres, however an adjustment for .73 acres cannot be discerned in the market. Like the subject, C3 has no basement. The primary difference between the two properties is the age of the improvements: the subject is 18 years old and the comparable sale was two years old at the time of sale. Certainly this could account for the \$5000 difference in price. It represents less than 4 percent over 18 years, which is less than the normal amount of *physical* depreciation for this length of time. There is no evidence to suggest a reduction in subjects' value due to economic depreciation.

Comp Sale C4 is located in an area that is economically inferior to the subject; it is farther from schools, employment centers, and shopping. However, in terms of size, the comparable improvements are larger, by over 1300 square feet, than the subject improvements, and the subject improvements are four years older than the comparable improvements. The price difference of \$2,500 could surely be absorbed by the depreciated cost to construct and finish the additional 1300 square feet of the comparable sale. There is no evidence to suggest that the value of the subject property is depressed because of economic forces.

Subject Sale D



Date of Sale: May 30, 1997
Sales Price: \$122,500
Location: Tract 2BA 23 28 20
Lot Size: 1.256 Acres
Finished SF: 1752 SF
Basement: Partial Unfinished
Garage: None
Outbuildings: None
Age: 10 Years
Style: Conventional
View: Of the surrounding countryside to the west.

Comments: Subject Sale D is located on U.S. Highway 35 approximately 1/8 mile north of the subject gravel pits. It has less visual exposure to the pit operation than Subjects A and B, but more exposure to the truck traffic and accompanying noise and smell generated by the pit operation. The range of values indicated by

the comparable sales is \$120,000 to \$150,000 or \$47.12 to \$84.03 per square foot. The subject sold for \$122,500 or \$69.92 per square foot, once again values that are well within the bracket.

Analysis: The subject first sold in October of 1994 for \$104,000 and resold in May of 1997 for \$122,500 demonstrating a price change of almost 18% during that time period. The gravel pits were active between October 1994 and May 1997 suggesting that regardless of their impact, values were appreciating.

Comp Sale D1 is situated in a location that is superior to the subject -- closer to schools, employment centers, and shopping. Not only is the comparable sale's land more valuable, but there are 2.76 acres versus the subject's 1.256 acres. The D1 improvement is nine years older than the subject, hence in terms of depreciation, it is physically inferior. The comparable has a 3 car garage, llama stable, hay shed and a shop; the subject has no outbuildings -- factors which offset the age inferiority. Comparison of this property which sold for \$120,000, to the subject which sold \$122,500 during the same month, suggests that the subject commanded a premium price regardless of its proximity to the subject gravel pits.

Comp Sale D2 sold for \$22,500 more than the subject property. It is locationally equal to the subject but has 3 acres versus the subject's 1.256 acres, a factor that would account for some of the price difference. The comparable has a barn, a 24X28 shop, implement shed, and a two car garage, whereas the subject has no outbuildings, factors that would account for much of the price difference. (The contributory value of an implement shed and a barn to a 3 acre site is subject to question. Assuming that the barn and implement shed were used when the property included farmable land, now with only 3 acre these buildings have less utility and hence less value. Caution should be exercised when allocating value to functionally obsolete buildings.) The subject is two years newer and has a partial basement with 812 square feet which suggests both size and physical superiority. The subject is located on a busy highway, whereas D2 is located about 3/4 mile from a busy highway on a paved county road and may command a higher price for that reason alone. In this pairing of sales, it is impossible to definitively reconcile the entire \$22,500 difference. Some may be attributable to economic pressures created by the presence of the subject gravel pits.

Comp Sale D3 is six years newer than the subject and sold for \$150,000 (the subject sold for \$122,500.) Otherwise it bears a high degree of similarity to the subject property. It is located in a covenanted neighborhood with restrictions that

prohibit commercial activity and mobile homes (although a few were grandfathered into the area), provides architectural standards, and protects against adverse external influences. Because of the safeguards provided by these covenants, this sale cannot be directly compared to the subject and therefore is not used in the analysis. It is included to demonstrate that the protection provided by neighborhood land use restrictions such as zoning and protective covenants helps maintain strong real estate values. It is my opinion that this comparable sale outsold the subject by \$27,500 because the comparable is located in a subdivision that is protected from the type of external influences that are commonplace in unrestricted neighborhoods -- influences that create economic depreciation. Buyers are willing to pay more for properties that are protected in this manner.

Comp Sale D4 is located in an area, that in terms of distance to schools, jobs, and shopping, is similar to the subject area. From Highway 2 West (of Kalispell), it is set back about 2 blocks. The comp sale neighborhood includes some low quality commercial uses and in this respect may be somewhat inferior to the subject neighborhood. The comparable property is larger than the subject with an additional 910 finished square feet, a shop building with approximately 2000 square feet, and an additional 2.42 acres. These factors could easily account for the \$2,500 difference in price. Compared to this property, the evidence is insufficient to suggest that the value of the subject is depressed due to economic factors.

Subject Sale E



Date of Sale: August 21, 1997
Sales Price: \$185,000
Location: Tract 2AA 23 28 20
Lot Size: 2 Acres
Finished SF: 2900 SF
Basement: None
Garage: Two car Attached
Outbuildings: None
Age: 1.5 years
Style: Two story
View: None

Comments: Subject Sale E is located on Lindsey Lane one mile east of the subject gravel pits. It is on the opposite side of the road in a heavily wooded area. Exposure to the gravel pit operation is minimal, however, there is increased congestion at the entrance to Lindsey Lane caused by the trucks using the gravel pits. The value range is \$165,000 to \$250,000 or \$58.41 to \$72.80 per square foot.

The subject sold for \$185,000 or \$64.42 per square foot, well within the bracket indicated by the comparables.

Comp Sale E1 sold for \$250,000; the subject sold for \$185,000. The \$65,000 difference is reconciled as follows: Like D3, Comp Sale E1 is located in a covenanted neighborhood that is protected from external economic influences. The location is superior to the subject. The comp sale has 5 acres versus the subject's 2 acres. It is larger -- 3,434 square feet on one story versus the subject's 2,872 square feet on two stories.

Comp Sale E2 is located in an area that is similar to the subject neighborhood. The house is older than the subject but was recently redecorated with new carpet, new paint, a new roof, and a hot tub. Land values in the comp sale neighborhood are similar to those in the subject neighborhood, but the comp has five acres versus the subject's two acres. It is smaller than the subject with 2,586 square feet on two stories. The subject sold for \$185,000 versus the comp at \$165,000. The value difference appears to be attributable to age, size, and land value.

Comp Sale E3 is located in an area that is somewhat inferior to the subject neighborhood. It is farther from jobs, schools, and shopping and only accessible via 5 miles of dirt road, but it has 4.9 acres to the subject's 2 acres. Otherwise this property bears a high degree of similarity to the subject. It sold in June of 1997 for \$65.93 per square foot and the subject in August of 1997 for \$64.42 per square foot. The comp has 2,700 square feet on two stories and the subject has 2,872 on two stories. The value difference between the two properties is insignificant.

Comp Sale E4 has a superior location and .5 acres more land than the subject. It is 732 square feet larger than the subject and has a three car garage versus the subject's two car built-in garage. The comparable was built in 1992 and thus is five years older than the subject. It sold for \$58.41 per square foot in August of 1997 and the subject sold for \$64.42 per square foot in the same month. The price difference could easily be attributed to the difference in ages.

Subject Sale F



Date of Sale: October 13, 1997
Sales Price: \$89,000
Location: Tract 26 28 20
Lot Size: 2.63 Acres
Finished SF: 1375 SF
Basement: None
Garage: Single Car Detached
Outbuildings: Shed
Age: Old Farm house, partially remodeled
Style: 1.5 story farmstead
View: Surrounding countryside

Comments: Subject Sale F is located in a cleared area approximately 1/8 mile south of the subject gravel pits. Exposure to the pit operation is fairly direct. The operation can be seen; noise levels from trucks and gravel crusher would be moderate; and with no tree cover, dust from the pit operation would probably infiltrate the improvements on this property. The value range indicated by the comparable sales provides a range of \$89,900 to \$95,000 or \$38.27 (two stories) to \$73.76. The subject property sold for \$89,000 in January of 1997. With 1,375

COMPARABLE SALES CHART

	Location	Price	Date	SF	Description	Bsmt	\$ / SF	Garage	Outbuildings	Acres
Subject Sale A	5575 Hwy 35	\$62,500.00	Sept. 28, 1994	924	1987 Fleetwood Sgl wide	None	\$67.84	None	Storage Sheds	5
Comp Sale A1	3850 Foothill Rd	\$58,000.00	Oct. 1993	720	1968 Belmont Sgl widew/12x60 porch	None	\$80.56	Dbl	26x40 Shop	5
Comp Sale A2	3720 Foothill Rd	\$73,000.00	Feb 1994	980	1980 14X70 Sgl wide perm roof	None	\$74.49	Tri	28X40 Insul shop	5
Comp Sale A3	836 Eastman Drive	\$77,500.00	Mar 1994	924	1973 mbl hme with numerous obldgs	None	\$83.87		Shop, Pole Bn, Rt Cell	5
Comp Sale A4	465 Lore Lake Rd	\$80,000.00	Jan 1995	924	1971 Kenwood Sgl wide	None	\$86.58	Dbl	Large barn	5
Comp Sale A5	930 Cougar Drive	\$80,000.00	Apr 1996	1056	1996 Dbl wide	None	\$75.76	None	None	5
Comp Sale A6	930 Cougar Drive	\$92,000.00	Apr 1997	1056	1996 Dbl wide Chadwick Fleetwood	None	\$87.12	None	None	5
Comp Sale A7	1154 Two Mile Drive	\$82,500.00	Nov 1996	924	1989 Sgle Wide	None	\$89.29	None	32X60 Metal Shop Bldg	5.093
Subject Sale B	140 Lindsey Lane	\$100,000.00	June 1995	1586	1986 Highland Park Dbl Wide	None	\$63.05	Dbl	None	2
Comp Sale B1	615 Kelly Road	\$103,000.00	Jul 1995	1719	1982 Dbl Wide, Deck w/hl, New Metl rf	None	\$59.92	Dbl	None	2.6
Comp Sale B2	433 Haskill Basin	\$106,000.00	Sept 1993	1575	28X57 Dbl Wide Mobile Haskill thru property	None	\$67.30	Dbl	None	2.53
Comp Sale B3	1124 Leisha Lane	\$90,300.00	Feb 1995	1680	1993 Fleetwood	None	\$53.75	None	Sir Shed, Dog Kel	2.5
Subject Sale C	3567 Hwy 35	\$130,000.00	June 1996	1460	1978 WF, Sgl Sty Ranch	none	\$89.04	Sgl Att	Dbl Car Carport	2.73
Comp Sale C1	660 Wishart Rd	\$131,000.00	Aug 1996	1528	1984 WF, DL Bsmt	1456	\$43.90	Dbl Att	None	2.01
Comp Sale C2	660 Wishart Rd	\$133,700.00	June 1997	1528	1984 WF, DL Bsmt	1456	\$44.81	Dbl Att	None	2.01
Comp Sale C3	1690 Haywire Gulch	\$135,000.00	Sept 1997	1752	1995 WF, Sgl Sty	None	\$77.05	Dbl Att	None	2
Comp Sale C4	375 Martin Camp	\$132,500.00	Jan 1998	1392	1982 WF Ranch with finished bsmt	1392	\$47.59	Dbl	None	2
Subject Sale D	5355 Hwy 35	\$122,500.00	May 1997	1752	1987 WF with partial bsmt	UF812	\$69.92	None	None	1.256
Subject Sale D	5355 Hwy 35	\$104,000.00	Oct 1994	1752	1987 WF with partial bsmt	UF812	\$59.36	None	None	1.256
Comp Sale D1	2580 Airport Road	\$120,000.00	Mar 1997	1704	1978 WF 1.5 Sty	None	\$70.42	Tri	Stable, Hay Shed, Shop	2.76
Comp Sale D2	241 Elk Park Road	\$145,000.00	June 1997	1863	1984 WF, Sgl Sty	None	\$77.83	Dbl	Barn 24X28 Shop, Imp Shed	3
Comp Sale D3	758 White Fawn Ln	\$150,000.00	Oct 1997	1785	1993 1.5 Sty, WF	UF 1280	\$84.03	Dbl	None	1.146
Comp Sale D4	4375 Hwy 2 Kila	\$125,000.00	Nov 1997	1331	1991 WF with finished bsmt	1322	\$47.12	None	Old shop with 2000 SF	3.68
Subject Sale E	375 Lindsey Lane	\$185,000.00	Aug 1997	1806	1997 2 Sty with Bl Gar	1066	\$64.42	Dbl, Bl	None	2
Comp Sale E1	1400 KM Ranch Rd	\$250,000.00	Jan 1997	3434	1997 Sgl Sty Ranch, WF	None	\$72.80	Dbl Att	None	5
Comp Sale E2	1018 Kelly Road	\$165,000.00	June 1997	1510	1981 2 Sty, new cpl, new roof, new paint	1076	\$63.81	None	None	5
Comp Sale E3	1295 Rogers Lake	\$178,000.00	June 1997	1476	1995 WF, 2 Sty	1224	\$65.93	Dbl	None	4.8
Comp Sale E4	299 Cayuse Lane	\$210,500.00	Aug 1997	1802	1992 2 Sty WF, J30	1802	\$58.41	Tri	None	2.49
Subject Sale F	5573 Hwy 35	\$89,000.00	Oct 1997	1375	Old 1.5 Sty Farm hse with some remodel	None	\$64.73	Sgl	Shed	2.63
Comp Sale F1	1125 Bierney Cr Rd	\$89,900.00	Jan 1997	1484	Old 1.5 Sty Farm hse in good condition	UF 784	\$60.58	Dbl	None	2.56
Comp Sale F2	210 Badrock Dr	\$90,000.00	Jan 1996	1176	38 year old farm hse in good condition	1176	\$38.27	Tri	Pole barn 1276 SF	2
Comp Sale F3	2865 Hwy 2 West	\$95,000.00	Nov 1996	1288	46 yr old farm hse in good condition	UF 952	\$73.76	Sgl	None	2.5

theoretically it could have been attributed to the effects of economic depreciation caused by the presence of a gravel pit. In all but one instance, it was possible to provide a reasonable explanation for price differences between the subject sale and the corresponding comparable sales. The price differential between D2 and Subject Sale D was too great to rationalize; therefore, it is possible that the lower subject value is due to the exposure to the subject gravel pits or it could simply be a market anomaly. These possibilities notwithstanding, the other sales that were compared to Subject Sale D provided sufficient evidence to discount this notion.

Each subject sale occurred while the gravel pits were active, during 1994 through 1997; although, the level of operation was at a peak during the summer of 1997 when highway 35 was under construction. Subject Sales D, E, and F occurred during this period of peak activity. The purchasers knew of the gravel pits, witnessed the level of activity, and experienced the effects, but were told that the pit activity level would subside when the highway construction was complete. The buyers said that they did not anticipate the possibility that the permits could be extended and the operations expanded and would not have bought had they been aware of this possibility.

The scope of this study is confined to the market's expectation of the level of pit activity and length of continued pit operation as of the date each subject transaction occurred. Underlying the conclusions of this report is the assumption that the operation of the gravel pits will revert to their 1994 - 1996 level of activity, that they will not continue to be as active as they were during the highway construction of 1997. A continuation of this peak level of operation could eventually erode neighborhood property values, although existing market evidence is insufficient to validate such a hypothesis.

Given these assumptions and subject to the stated scope of this study, it is my opinion, that as of February 15, 1998, the presence of the subject gravel pits had not adversely affected the value of the subject properties and therefore would not adversely effect other properties in the defined neighborhood. If the gravel pit activity reverts to the operational level of 1994 through 1996 (prior to the summer of 1997), there is no market evidence to suggest that property values will be affected in the future.

State of Montana

Marc Racicot, Governor

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ST. DEPT. OF ENVIRONMENTAL QUALITY
BILLINGS OFFICE



Jim Fairbanks, Region 3 Manager 523-4867
Scott Spear, Field Operations 375-6314
Terry Hightower, Office Operations 523-4866

Department of Revenue

Mary Bryson, Director

Property Assessment Division

April 6, 1998

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APR 08 1998

Randy Wilke, Acting Administrator
Property Assessment Division
Department of Revenue
Mitchell Building
Helena, Mt 59620

DEPARTMENT OF REVENUE
PROPERTY ASSESSMENT DIVISION

*RE: Review of report entitled GRAVEL PITS: THE EFFECT ON
NEIGHBORHOOD PROPERTY VALUES*

Dear Randy,

You have asked that I provide a review of the appraisal analysis prepared by Phillip J. Rygg, MAI, for the Montana Department of Environmental Quality (DEQ).

The report was commissioned to determine "whether the existence of a gravel pit and gravel crushing operation impacts the value of surrounding real property".

I provide analysis of content, and comment on conclusions reached.

sincerely,

A handwritten signature in cursive script, appearing to read "Jim Fairbanks".

Jim Fairbanks,
Region 3 Manager,
Property Assessment Division
Montana Certified General Appraiser #335

USPAP PROVISIONS

The Uniform Standards of Professional Appraisal Practice detail provisions that must be met in all appraisal reports.

The ETHICS provisions with respect to conduct, compensation determination and confidentiality are considered adhered to within the subject report.

The COMPETENCY provision requiring the appraiser to cite any lack of knowledge specific to the purpose of the report is considered addressed.

No DEPARTURE from binding requirements were made in the subject report.

PURPOSE AND USE OF THE REPORT

The purpose of the report is clearly defined as an analysis of the market influences of two openpit gravel mining operations located seven miles north of Bigfork, Montana, on surrounding residential real properties in recent years. In short, was identifiable ECONOMIC OBSOLESCENCE measurable?

EXTENT OF REVIEW CONDUCTED

The review appraiser has examined the report for completeness. Six sales of residentially improved real property, adjacent to or within one-eighth mile of the subject gravel pits were compared to twenty-five similar property sales outside of the environment of subject. The sales occurred from 1993 to 1998, during the peak period of operation of the gravel pits. Analysis examined the square foot sale prices of all sales (sale price divided by living area) in an effort to determine if sales within the neighborhood of the pits, exhibited lower per square foot increments compared to properties considered outside the influence of the gravel pits. This approach is considered valid, as were the adjustments made to the sales outside the neighborhood for land size and associated improvements.

CONCLUSION COMMENTS

Mr. Rygg determined that *"None (of the sales within the environment of the gravel pit) were influenced by the presence of an operating gravel pit."*

In the course of responding to valuation challenges of ad valorem tax appraisals, your reviewer has encountered similar arguments from Missoula County taxpayers regarding the presumed negative influence of gravel pits, BPA power lines, neighborhood character change, and traffic and other nuisances. In virtually ALL cases, negative value impacts were not measurable. Potential purchasers accept newly created minor nuisances that long-time residents consider value diminishing.

I certify that, to the best of my knowledge and belief:

- the facts and data reported by the review appraiser and used in the review process are true and correct.
- the analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.
- compensations not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review report.
- my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional appraisal Practice.
- I did not personally inspect the subject properties of the report under review.
- no one provided significant professional assistance to the person signing this review report.



James W. Fairbanks
Certified General Appraiser #335

April 6, 1998