

Effort to cash in on land crumbles

SCOTT VALLEY-2000
Success of land banks in
envrionmental protection
remains uncertain

By **KURTIS ALEXANDER**

SENTINEL STAFF WRITER

8-26-08
Environmentalists celebrated the purchase of the old Geyer Quarry by a local land trust this month as a conservation milestone for the Santa Cruz Mountains and its unique sandhills.

But behind the achievement was a less successful venture by a group of private investors hoping to cash in on the quarry land by preserving it themselves.

Instead, miscalculations and a slumping economy forced the investors to change course and consider developing luxury homes on the property, according to interviews with stakeholders and a review of public records. That's when the Land Trust of Santa Cruz County, a nonprofit that buys land to protect it, stepped in and bought the quarry site from the investment group.

The investors are still intent on becoming players in an emerging industry that seeks to profit from environmental protection, but their future remains unclear.

"It's always been a long-term investment," said Paul Burrowes, the group's managing partner. "We're moving forward little by little."

Meanwhile, the Land Trust walked away with what appraisers, environmentalists and the original investors say was a fair price, \$4.1 million for 189 acres that include sandhills with wildlife found nowhere else.

The plan to profit

The group, PCO LLC., registered out of Santa Cruz, has been working to create a conservation bank in the Santa Cruz Mountains for more than four years.

The purpose of the bank is to provide residents who want to develop properties in ecologically sensitive areas a way to meet environmental laws by offsetting their disturbance; property owners buy credits from the bank and, in turn, the bank uses

Land

Continued from Page A1

the proceeds to purchase and protect larger swaths of land elsewhere.

Critics of conservation banks say the program merely facilitates development. Supporters say it's a pragmatic way of meeting the needs of developers and at the same time preserving land.

"This really does help solve the dilemma for small landowners," said Tom Burns, director of the county Planning Department, which contracts with PCO to help property owners meet local building rules. Before this, he said, landowners who lived in the federally protected sandhills, which stretch from Scotts Valley to Bonny Doon, faced a difficult, if not impossible, task of getting permits for building or remodeling.

PCO, which has about a dozen investors, pooled money to buy three properties to start the conservation bank. It expected the business of the bank to eventually pay back the investment and generate profits.

That's yet to happen.

The group, from the beginning, overestimated just how much land it would need for the conservation bank.

The amount of development that would qualify for offsets at the bank and the ease with which landowners could use the bank were among the miscalculations. A weak economy and less building in recent years also meant less business for the bank.

To date, the group has sold about \$300,000 worth of credits — which cost landowners \$7.50 for each square foot they develop — while the group has shelled out millions for property.

"Reality struck that we had paid a great deal of money on the (quarry) parcel," explained Burrowes. "We wanted to look at our options."

Finding an out

Although Burrowes said the group did not wish to see development on the quarry lands, PCO had drawn up plans for a small subdivision on the property before they bought it.

Burrowes says it was a back-up strategy if the conservation bank didn't work out.

The drawings show 14 homes not far off Mount Hermon Road in the hills between Scotts Valley and Felton. The development was limited to 12 acres and wasn't planned in the more



Sandhills off of Lockhart Gulch in Scotts Valley.

Shmuel Thaler/Sentinel

sensitive areas of the site, but the environmental community agreed the subdivision, with its people, roads and utilities, would inevitably disturb the surrounding lands.

"That's not the result we wanted so see," said Terry Corwin, executive director of the Land Trust.

The proposal was not the main reason the Land Trust took interest in the property — the nonprofit had always eyed the site's sandhills. However, the development plan was a concern and became part of a pitch in fund-raising campaign to buy the quarry lands.

Within nine months of launching the campaign last fall, the Land Trust had collected \$1.2 million from local supporters and \$4.3 million in grants, enough to buy the site and then some.

For the Land Trust, the purchase would be a major step in its effort to safeguard the region's 3,600 acres of sand-

hills.

The habitat, characterized by sandy floors and ponderosa pine, is unique to the Santa Cruz Mountains and home to seven plants and animals found nowhere else, like the Mount Hermon June beetle, Zayante band-winged grasshopper and Santa Cruz kangaroo rat. Most of the sandhills are in private hands and remain at risk of development.

"Exactly what tipped the balance for funders, I don't know," said Jodi McGraw, an ecologist who has consulted with the

Land Trust. "Maybe it was the threat of development."

Counting the losses

As it turns out, PCO didn't get nearly the return on the property it had hoped for.

Though the investment group sold the quarry lands to the Land Trust for \$1.2 million more than it paid in June of 2007 — \$2.9 million — the group's expenses at the site were formidable.

The group spent about a million dollars to cover fees

associated with its purchase, improvements on the property and unpaid taxes of the previous owner.

What little remained from the sale's proceeds went toward debt on other properties.

"We did want more (money), but we also wanted to preserve the land," Burrowes said. "The Land Trust got a really good deal, we believe, a bargain deal."

Burrowes says the property was worth more than \$6 million at one point, after the development plans were

drawn up. But a sluggish real estate market and the uncertainty of developing homes on the quarry, where water supplies are tight and county approval was far from certain, didn't bode well for attracting buyers.

With debt mounting and little money coming in, the group didn't have time to wait for a higher bid.

"All along we've been trying to catch up with ourselves," Burrowes said.

The future of the bank

With the quarry site sold and the overhead of the conservation bank now limited to two smaller sites, PCO's finances are better off. The group remains at least \$2 million in debt, though — exactly how much is not clear since the financial statements are not public.

There are signs that business might pick up for the conservation bank.

For one, it's likely to become easier to use. The U.S. Fish and Wildlife Service, which approved the bank as a way for landowners to satisfy endangered species regulations two years ago, is standardizing procedures for using the bank. This will mean less time and cost for property owners in residential areas.

In addition, the county Planning Department only this year approved the bank as a way for landowners to meet local building regulations. Now that the bank is an option, more residents are likely to consider using it.

PCO also stands to gain when the economy turns around and development picks up, which will mean more potential customers.

"I know PCO has had some lean times, said David Pereksa, an assistant field supervisor with U.S. Fish and Wildlife. "But I think that's going to change."

"We're hoping this can work out for them, and more importantly for the (endangered) species here."

Contact Kurtis Alexander at 706-3267-
kalexander@santacruzsentinel.com.