



Legislative Fiscal Bureau

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February 7, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Grants for Bayfield County Forest Acquisition (Ceres Timber Tract) -- Agenda Item IV

REQUEST

On June 26, 2018, the Department of Natural Resources (DNR) requested approval under s. 23.0917 (6m) of the statutes to provide a county forest grant of \$1,257,400 to Bayfield County for the acquisition of 1,110 acres in the Towns of Bayfield and Bell from Ceres Timber using fiscal year 2017-18 bonding authority. An objection to the request was made on July 18, 2018.

BACKGROUND

County Forest Program

The Knowles-Nelson Stewardship land acquisition subprogram authorizes DNR to provide grants to counties to acquire land to be included in a county forest. Of \$21 million available annually for DNR to obligate from the land acquisition subprogram, the statutes specify at least \$5 million to be set aside for grants to counties primarily for county forest grants. In addition, if at the end of a given fiscal year, any of a separate \$7 million allocation for grants to nonprofit conservation organizations (NCOs) remain unobligated, DNR may carry forward the unobligated bonding authority for NCOs into the following fiscal year to be used only to provide grants for acquisitions for county forests.

Counties are required to provide matching funds of at least 50% of the land acquisition cost. County cash matches may include: (a) county funds; (b) other local or federal matching funds or grants; and (c) contributions from non-governmental entities or organizations. Counties also may match grants with land holdings, including: (a) any donated portion of the land to be purchased in part with the grant, if the land is being acquired for a price less than fair market value; (b) the fair market value of land purchased not earlier than one year prior to grant application; or (c) 50% of the fair market value of land owned by the county more than one year prior to grant application.

Lands acquired with a county forest grant, as well as any lands offered as the county match, must be incorporated into the county forest. A county is prohibited from converting the land or the rights in the land acquired using program grant money to a use that is inconsistent with the type of nature-based outdoor recreation for which the grant was awarded, unless otherwise approved by the Natural Resources Board.

Bayfield County Forest and Project Descriptions

Bayfield County would use \$1,257,400 to acquire 1,110 acres divided between four tracts in the Towns of Bayfield and Bell. (References hereafter to acquisition and match parcels by letter or numeric designation will correspond to those used in the DNR request.) The parcels contain a mix of aspen, red pine, red oak, northern hardwoods, jack pine, and swamp conifer. Roughly 1,000 acres of the tract are productive forest, and of this area, approximately 950 acres are ready for forest management or will be ready within 15 years. Each of the four parcels are adjacent to the county forest, and three of the parcels are surrounded on at least three sides by county forest. As of June 30, 2018, Bayfield County had approximately 172,000 acres enrolled in the county forest.

The parcels collectively contain over two miles of river and stream frontage, including the Sand River, a class II trout stream, as well as several miles of smaller tributaries that drain to Lake Superior. One of the project tracts [parcel D] is located within the Glacial Kettles Special Management Area and contains several kettles, a steep deep glacial depression. Additionally, the proposed acquisitions contain a half-mile snowmobile trail and a series of hiking trails [parcel A]. The project area would be open to all nature-based outdoor activities (NBOAs).

In addition, the county has offered 3,221 acres spread across four tracts in the Towns of Grand View, Hughes, Washburn, and Bayfield as match parcels. The largest parcel [match 1], which encompasses 3,040 acres in the towns of Grand View, Lincoln, and Mason, contains part of the Bibon Swamp, the largest wetland in Bayfield County. The Bibon Swamp is a biologically productive area that provides habitat to many rare birds and plants, including the bald eagle, great grey owl, and arrow-leaved sweet coltsfoot, which is listed as a state threatened species. The match parcel contains roughly two miles of frontage on the White River, which drains the Bibon Swamp, as well as additional frontage on two tributaries of the White River. Additionally, the match parcel contains a 2.5-mile state-funded snowmobile trail connecting the Towns of Mason and Grand View.

The three additional match parcels are comparatively smaller, ranging in size from 17 acres to approximately 84 acres. These parcels contain a mix of aspen, red oak, red maple, and balsam. One match parcel, located in the Town of Hughes [match 2], includes approximately one quarter mile of frontage on Bismarck Lake. This match parcel would create the only public access point to this 60-acre lake. This parcel is ready to be actively managed as a part of the county forest. An additional match parcel, located in the Town of Washburn [match 3], is entirely surrounded by the Chequamegon-Nicolet National Forest and is separated from other county forest lands by a quarter mile. This parcel will be ready for active management in 15 to 20 years. The final match parcel, located in the Town of Bayfield [match 4], abuts the county forest. This parcel contains roughly one half mile of tributaries that drain to Lake Superior. This parcel is ready to be actively managed as a part of the county forest.

The acquisition parcels are owned by Ceres Timber, a large private timberland investment management organization (TIMO). All acres are enrolled in the Managed Forest Law (MFL) under open access. The project area was enrolled before 2005 and has MFL acreage share payments of 74¢ per acre. Towns in which the parcels are located also receive state aids of 20¢ per MFL acre, of which 20% (4¢ per acre) is distributed to the county.

ANALYSIS

The appraisal estimated the market value of the five acquisition tracts at between \$1,000 per acre and \$1,600 per acre, as shown in Table 1. Each of the tracts is located in a forestry zoning district, although certain residential and other limited development may be authorized by permit.

TABLE 1

Bayfield County Forest -- Acquisition Parcels

<u>Town</u>	<u>Acres</u>	<u>Estimated Value</u>	<u>Stewardship Grant Value</u>	<u>Price per Acre</u>
Bell [A]	150	\$150,000	\$75,000	\$1,000
Bayfield [B]	600	630,000	315,000	1,050
Bell [C]	40	56,000	28,000	1,400
Bell [C]	200	320,000	160,000	1,600
Bell [D]	<u>120</u>	<u>132,000</u>	<u>66,000</u>	1,100
Total	1,110	\$1,288,000	\$644,000	

The county forest grant program allows counties to match stewardship-funded purchases with other county-owned lands, with both the grant-funded acquisition and the match parcels required to be added to the county forest. DNR administrative rules provide counties may be compensated: (a) for 50% of the fair market value of lands purchased more than one year prior to the grant application; or (b) for 100% of the fair market value of lands purchased up to one year prior to the grant application. Lands also must otherwise be eligible for addition to the county forest under statutory criteria.

Due in part to the land-match provision, counties may occasionally withhold acquired lands from formal enrollment in a county forest. Acquiring lands as they become available, without immediately designating acreage for the county forest, allows counties to use such parcels for one or both of: (a) immediate forest production and subsequent timber income; and (b) for use in subsequent land deals, either as a swap or for stewardship grant match. Acquiring and holding lands in this fashion allows counties to pursue the long-term establishment of contiguous blocks of forest when relatively smaller purchase opportunities arise, while preserving an ability to match future significant forest acquisitions. The leveraging of previous purchases for stewardship grants also may allow counties to avoid funding large forest acquisitions through other means.

The proposal would provide Bayfield County with 50% matches on the county-owned parcels offered. The parcels offered as the county match have been in county ownership since at least 2016, with some sections of the Bibon Swamp parcel being owned by the county since the 1950s.

The parcels offered by the county as a match vary widely in their estimated market value, from \$300 per acre to \$2,500 per acre. The estimated values of match parcels are summarized in Table 2. The Town of Hughes parcel [2], which has frontage on Bismarck Lake, has the highest appraised value. While it is currently zoned only for forest production and recreational uses, the appraiser notes that the area could be rezoned for residential development. The tracts located in the Towns of Washburn [3] and Bayfield [4] are zoned for forestry/recreation and agricultural uses, respectively. The highest and best uses for each parcel were determined to be recreational.

TABLE 2

Bayfield County Forest -- Match Parcels

<u>Town</u>	<u>Acres</u>	<u>Estimated Value</u>	<u>Stewardship Grant Value</u>	<u>Price per Acre</u>
Grand View, Lincoln, Mason (Bibon Swamp) [1]	3,040	\$912,000	\$456,000	\$300
Hughes [2]	84	211,000	105,500	2,500
Washburn [3]	80	80,000	40,000	1,000
Bayfield [4]	17	<u>13,500</u>	<u>6,750</u>	800
Total	3,221	\$1,216,500	\$608,250	

The lowest value tract is the largest, which contains part of the Bibon Swamp. The wetland characteristics of the parcel preclude most residential uses, which may deter many buyers. The appraisal compared the parcel to sales of properties of similar sizes and characteristics but found that many comparable sales were intended for wetland mitigation banking, rather than for timber management or recreational uses.

While the Bibon Swamp area is spread across forestry zoning districts, it is sparsely forested. Bayfield County notes that 15% of the parcel may be used for active timber production. Most of the stands of trees are conifers and are located in a swamp area south of the White River, which bisects the parcel. North of the White River, much of parcel is a bog, unsuitable for forest management. In its application, Bayfield County notes that it intends to enroll the property in county forest law for riparian management rather than timber production.

Under the county forest acquisition subprogram, county-offered match parcels must be eligible to be enrolled in county forest law, under s. 28.11 of the statutes. Bayfield County points out that under s. 28.11(4)(c), a county may designate some lands as a county special use area. Under the statutes, priority is given to areas that are suitable for scenic, outdoor recreation, public hunting and fishing, water conservation and other multiple-use purposes. The White River is a class II trout stream and has a canoe-accessible camping area on its banks, providing many recreational

opportunities. On the other hand, although the statutes provide that the public purposes of a county forest may include watershed protection, it could be argued that because the Bibon Swamp parcel is intended for riparian management, rather than forest production, it is less suitable to be offered as a significant component of a match for a stewardship grant.

As it is currently managed, the towns of Grand View, Lincoln, and Mason receive no aid payments for the Bibon Swamp parcel. Publicly owned parcels are ineligible to be enrolled in MFL, and therefore towns do not receive acreage share payments or state aids on MFL acreage. Further, since the parcel is not currently enrolled in the county forest, towns do not receive stumpage shares. If acreage is enrolled in the county forest, towns receive 10% of the annual stumpage revenue in proportion to the county forest acreage in the town, as well as 30¢ per acre in state aid payments on county forest acres.

The Committee could consider approving the grant request as submitted (Alternative 1). The acquisition would provide public access to a class II trout stream. Bayfield County argues that enrolling the Bibon Swamp parcel in the county forest would enable the county to work with DNR on habitat management for the rare species located in the wetland, as well as provide for better riparian management. Approving the request would also provide state aids and acreage share payments to the towns of Grand View, Lincoln, and Mason.

The Committee could also consider reducing the proposed grant by the value of the Bibon Swamp parcel, which has an estimated market value of \$912,000 and is qualified for a 50% match. Removing the Bibon Swamp would reduce the county-offered match by \$456,000, resulting in a grant of \$801,400 (Alternative 2).

Bayfield County indicates that such a reduction in the matched value would make the project cost higher than what the county could offer. The county notes that under this scenario it would not seek to purchase parcel B in the Town of Bayfield, which would lower the grant by an additional \$315,000. A total stewardship grant of \$485,800 would support the purchase of 510 acres, the addition of 181 match acres, and a share of closing costs reflecting the revised proposal (Alternative 3). It should be noted that subsequent to the June, 2018, submittal of the grant to the Committee, Bayfield County resubmitted to DNR a project application incorporating these changes.

The Committee could also deny the request (Alternative 4). The Ceres-owned tracts could be sold to other private buyers, which could somewhat increase forest fragmentation and may limit public access if parcels were not re-enrolled in MFL or were enrolled as closed acres. Bayfield County and DNR report a majority of the Ceres-owned tracts are under 25-year MFL orders expiring in or around 2023.

The Department indicated with the submission of the grant for Committee review that 2017-18 county forest grant funds would be obligated for the grant. When the request was submitted in June, 2018, DNR indicated the grant was to utilize fiscal year 2017-18 funds. However, the 2017-18 fiscal year has ended and the accounting for the year has closed. DNR would be required to utilize its 2018-19 stewardship bonding allocation at this time. As DNR may not formally encumber, or obligate, stewardship funds until the project is approved by Joint Finance, and county forest grant

allocations do not carry forward to subsequent fiscal years, the 2017-18 funds associated with this grant are now unavailable for obligation without further authorization by the Legislature.

ALTERNATIVES

1. Approve the Department of Natural Resources request to grant \$1,257,400 from the Knowles-Nelson Stewardship program to Bayfield County for: (a) the acquisition of 1,110 acres from Ceres Timber (\$644,000); (b) a 50% match on current county holdings to be incorporated into the Bayfield County Forest (\$608,250); and (c) a 50% match on eligible transaction costs (\$5,150). Specify funds are to be obligated using 2018-19 stewardship funding for county forest grants.

2. Approve the DNR request, but provide a state contribution for \$801,400, for: (a) the acquisition of 1,100 acres from Ceres Timber (\$644,000); (b) a 50% match on county holdings to be incorporated into the Bayfield County Forest, excluding the Bibon Swamp parcel (\$152,250); and (c) a 50% match on eligible transaction costs (\$5,150). Specify funds are to be obligated using 2018-19 stewardship funding for county forest grants.

3. Approve the DNR request, but provide a state contribution for \$485,800, for: (a) the acquisition of 510 acres from Ceres Timber (\$329,000), excluding the Town of Bayfield parcel; (b) a 50% match on county holdings to be incorporated into the Bayfield County Forest, excluding the Bibon Swamp parcel (\$152,300); and (c) a 50% match on eligible transaction costs (\$4,500). Specify funds are to be obligated using 2018-19 stewardship funding forest grants.

4. Deny the request.

Prepared by: Eric Hepler