



Legislative Fiscal Bureau

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July 23, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Grant for Marathon County Forest Acquisition --
Agenda Item IV

On June 7, 2019, the Department of Natural Resources (DNR) requested approval under s. 23.0917(6m) of the statutes to provide a grant to Marathon County in the amount of \$347,033 in 2018-19 land acquisition funds from the Warren Knowles-Gaylord Nelson Stewardship Program to acquire 199.84 acres to be enrolled in the county forest. The Kerswill project, as it is known, is located in the Town of Hewitt in Marathon County. Notice of an objection to the proposed acquisition was made on June 27, 2019.

ANALYSIS

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 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 acquired 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.

Marathon County Forest and Kerswill Project Descriptions

The purchase price for the Kerswill parcel is \$349,000, which would acquire 199.84 acres to be enrolled in the county forest. The Kerswill property is about 85% wooded and 15% wetland with approximately 2,800 feet of stream frontage. The wooded area is composed of 55 acres of northern hardwood varieties, 70 acres of red maple, 53 acres of aspen, 15 acres of lowland alder and 7 acres of grassland. DNR reports that the wooded area contains an estimated \$40,000 in readily harvestable timber as well as an internal timber road network. The acquisition would also include an easement that would connect the parcel to the county road network. To the north, the Kerswill property abuts the Langlade County Forest; incorporating the tract into the Marathon County Forest would be expected to prevent future forest fragmentation in the region.

The Kerswill property is currently enrolled as closed acreage in the managed forest law (MFL) program. The property was enrolled in 1999 and has acreage share payments of \$1.75 per acre (approximately \$350 per year), of which 80% is paid to the Town of Hewitt (approximately \$280 in total) and 20% is paid to Marathon County (\$70 per year). Should the property be acquired and enrolled in the county forest, the Town of Hewitt would also receive payments of 30¢ per acre in state aids (approximately \$60), as well as a 10% severance share from all timber harvested on the parcel. As closed acreage, the parcel is unavailable for public recreation. If the parcel is enrolled in the county forest, it will be open to all traditional nature-based outdoor activities, including hunting, trapping, fishing, and hiking.

As of December, 2018, Marathon County had approximately 30,195 acres (approximately 3% of county area) enrolled in the county forest. The county had an additional 30,100 acres in public ownership, primarily lands held in fee simple by DNR, setting total public ownership at approximately 6% of the county's total land area. Marathon County has established a strategic goal of acquiring 320 acres each year. While the Kerswill parcel is not located within the county forest 15-year plan, Marathon County reports that it will amend the plan to include the Kerswill project, pending approval of the stewardship grant. The Marathon County Forest currently consists of nine separate units, mostly in the eastern half of the county, and ranging in size from 269 acres to more than 9,000 acres. The Kerswill acquisition would be contiguous with the largest unit, the Hewitt-Harrison.

The county has offered as a match 79.7 acres in the Town of Easton, which was donated to the county by the nonprofit Wausau and Marathon County Parks Foundation (WMCPF) in February, 2019. The match parcel was appraised at \$169,300. Because the match parcel was acquired by the county less than one year prior to the grant application was submitted, the match parcel qualifies on a 100% basis. The parcel was donated to the county to be used as a match for the Kerswill acquisition, although it would not be contiguous with any other unit of the Marathon County Forest. Marathon County officials indicate the WMCPF had intended to use timber revenues to develop the property

for public outdoor nature-based recreational uses and ultimately donate the property to the county. However, a timber sale begun in 2012 could not be completed. The county now intends to execute such subsequent timber sales and future development for public recreational uses.

Prior to donating the match parcel to the county, WMCPF had owned the property since 1986. The match property is not enrolled in MFL, but under both the WMCPF and county ownership, the Town of Easton receives no aids or taxes from the property. If the match parcel were to be enrolled in the county forest, the town would receive annual payments of 30¢ per acre (approximately \$24 per year) and a 10% severance share on all timber harvested on the property. The land cover on the property is approximately 13% highland wooded area and 87% wooded hydric soils. Future forest production could include conifers and hemlock. The property contains approximately 1,400 feet of stream frontage.

The grant amount of \$347,033 would reflect: (a) \$174,500, or 50% of the acquisition price of \$349,000 for the Kerswill parcel; (b) \$169,303, equal to the full fair market value of the match parcel; and (c) \$3,230, equal to a 50% share of transaction costs associated with both tracts.

ANALYSIS

The Kerswill tract is located in an area that is zoned for agriculture and forestry. This limits possible future uses of the property to those uses and outdoor recreation. Furthermore, the property is enrolled in MFL, with orders extending through December 31, 2023. If the property were to be acquired by a private owner, MFL orders would continue, restricting future use to forest production. Marathon County received one appraisal on both the Kerswill property and the match. The appraisal analyzed three comparable sales to set the value of the Kerswill acquisition. The comparable sales closed for between \$1,310 per acre and \$2,100 per acre. While the appraiser did not conduct a formal timber assessment, it was estimated that the Kerswill tract and the three comparable sales contained timber of similar quality. The appraiser estimated the fair market value of the Kerswill tract within the middle of the distribution, at \$1,753 per acre, or \$349,000.

The appraiser estimated the fair market value of the match parcel using the same three comparable sales as the Kerswill property in an earlier timber sale. While much of the merchantable timber has been harvested from the match property, the appraiser notes that the remaining timber is of higher quality than the comparison sales. On this basis, the appraiser estimated the fair market value of the match property higher than all comparable sales, at \$2,125 per acre, or \$170,000.

Much of the land area in the match parcel is low-lying and covered in hydric soil. These conditions would be expected to limit the type of future forest production to conifers, which may on average command lower stumpage rates. Though the appraiser notes that the parcel does contain some high-quality timber, the appraisal does not explain why the high appraised value is justified given the proportion of soggy ground cover. Additionally, while the appraisal notes the match parcel is accessible by road, nearly all of the harvestable timber is located across the Big Sandy River, inaccessible to the road network. The DNR appraisal review notes that the appraisal does not explain why a potential buyer would pay a premium for inaccessible timber.

Despite questions of the timber on the property justifying the appraised value, the appraisal

review conducted by DNR notes that the value of the property as a recreational asset may provide a justification. The appraisal looked exclusively at the value of the match parcel for timber production, rather than recreation. The appraisal review, however, examined four sales of comparable land for recreational use, identifying a range in values between \$1,922 and \$2,563 per acre. As the appraised value of the match parcel identified by the appraisal falls within these values, it may be considered a reasonable estimate of the match parcel's value. The Committee could consider approving the request, which would provide a 50% grant for the Kerswill acquisition and eligible project costs (\$177,800) as well as a 100% grant on the county land (\$169,300), for a total grant of \$347,100 [Alternative 1].

Given the circumstances of the estimated value of the match parcel, the Committee could consider reducing match basis of the parcel to 50% of the appraised value, or \$84,600 [Alternative 2] or eliminating the grant for the match parcel entirely [Alternative 3]. Lowering or eliminating the grant for the match parcel would require Marathon County to make the acquisition using other available county or grant funds, negotiate a lower purchase price, or forego the purchase. It should be noted that if the grant for the match is entirely eliminated [Alternative 3], the county would not be required to enroll the match parcel in the county forest. The Town of Easton would continue to receive no aid payments if the acreage were not held in the county forest. As the match parcel is held in public ownership, the town would collect no property taxes on the land.

The Committee could also consider denying the request [Alternative 4]. It is not clear whether Marathon County would pursue the acquisition if funding were reduced or denied under the request. The Kerswill property is currently enrolled as closed acreage in MFL through December 31, 2023. While a future owner would be required to abide by the terms of the forest management plan, the property could be removed from MFL when the orders expire. Furthermore, the property is closed to public recreation. The public would continue to be unable to access the property if the request is denied.

ALTERNATIVES

1. Approve the DNR request to provide a grant to Marathon County from the 2018-19 stewardship land acquisition subprogram for additions to the Marathon County Forest. Authorize a grant for 50% of the acquisition of the Kerswill property and other eligible costs (\$177,800) and provide a 100% match on the county-offered land match (\$169,300) for a total grant of \$347,100.
2. Approve the DNR request to provide a grant for 50% of the acquisition cost of the Kerswill project and other eligible costs (\$177,800) for both tracts, but modify the grant to reduce the value of the match land by 50% to \$84,600. (The total stewardship grant would be \$262,400.)
3. Approve a grant for 50% of the acquisition and other eligible costs (\$177,000) for the Kerswill acquisition only. (This would remove the match and reduce the grant by \$170,100.)
4. Deny the request.

Prepared by: Eric Hepler