

STATE OF WISCONSIN

pt 24

SENATE CHAIR
BRIAN BURKE

317-E Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: 266-8535



ASSEMBLY CHAIR
JOHN GARD

308-E Capitol
P.O. Box 8952
Madison, WI 53708-8952
Phone: 266-2343

JOINT COMMITTEE ON FINANCE

December 6, 2001

Mr. Darrell Bazzell, Secretary
Department of Natural Resources
101 South Webster Street
Madison, WI 53707-7921

Dear Secretary Bazzell:

We are writing to inform you that the members of the Joint Committee on Finance have reviewed your request, dated December 4, 2001, regarding the proposed 9,239 acre land purchase in Marinette and Oconto Counties from the Wisconsin Public Service Corporation for \$25,000,000.

A meeting will be scheduled to further review this purchase. Therefore, the request is not approved at this time.

Sincerely,

Handwritten signature of Brian Burke in black ink.

BRIAN BURKE
Senate Chair

Handwritten signature of John Gard in black ink.

JOHN GARD
Assembly Chair

BB:JG:dh

cc: Members, Joint Committee on Finance
Vicky LaBelle, Department of Administration

THE STATE OF WISCONSIN

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative John Gard
Co-Chairs, Joint Committee on Finance

Date: December 5, 2001

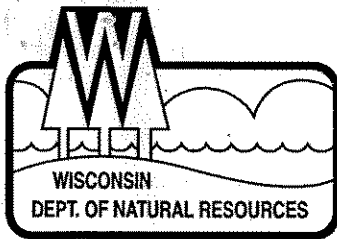
Re: 14 Day Passive Review/Land Purchase

Attached is a copy of a request from Secretary Darrell Bazzell, received December 4, 2001, regarding a proposed 9,239 acre land purchase in Marinette and Oconto Counties from the Wisconsin Public Service Corporation for \$25,000,000. This request is pursuant to s. 23.0915(4), Stats., which requires the Department of Natural Resources to notify the Joint Committee on Finance of all stewardship projects in excess of \$250,000.

Please review this item and notify **Senator Burke** or **Representative Gard** no later than **Friday, December 21, 2001**, if you have any questions about this request or would like the Committee to meet formally to consider it. If no objections are heard by that date, the request will be approved.

Also, please contact us if you need further information.

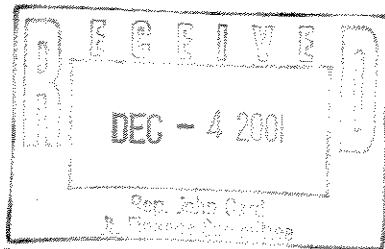
BB:JG:js



Scott McCallum, Governor
Darrell Bazzell, Secretary
State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

101 S. Webster St.
Box 7921
Madison, Wisconsin 53707-7921
Telephone 608-266-2621
FAX 608-267-3579
TTY 608-267-6897

DEC - 4 2001



IN REPLY REFER TO: NF-784

Honorable Brian Burke
Member State Senate
Room 316S
CAPITOL

Honorable John Gard
Member State Assembly
Room 315N
CAPITOL

Brian
Dear Senator Burke and Representative *John* Gard:

The Department is notifying you as co-chairs of the Joint Committee on Finance of a proposed 9,239-acre land purchase from Wisconsin Public Service Corporation for \$25,000,000. This notice is pursuant to s.23.0915(4), Stats., which requires the Department to notify the Joint Committee on Finance of all Stewardship projects more than \$250,000 in cost. The Natural Resources Board approved the purchase at a special meeting on November 16, 2001. The land is required for Scenic Protection and Public Recreation for the Peshtigo River Shoreline Project.

The file number is NF-784 and the land is located in Marinette and Oconto Counties. Attached please find a memo and maps describing this transaction. The Department will need to use FY03, 04 and 05 funds for the first installment of \$13,500,000 in accordance with the provisions in the Stewardship 2000 law. Interest costs of up to \$850,000 and miscellaneous expenses of up to \$50,000 are anticipated and authority to use Stewardship funds for those costs also is requested. Final, actual costs will limit the use of Stewardship funds. A 640-acre portion of the land, located in Oconto County, is within the Nicolet National Forest. The Department intends to negotiate for sale of that portion of the WPSC land to the US Forest Service.

I certify that this request for consideration meets all applicable state and federal statutes, rules, regulations, and guidelines. This certification is based upon a thorough and complete analysis of this request. If you do not notify the Department within 14 working days after this notification that the committee has scheduled a meeting to review the proposed transaction, the Department will proceed with the approval process. If the Committee has no objections, the Department will forward the proposal to the Governor for his consideration. If you need additional information, please contact Richard Steffes at 266-0201. Mr. Steffes is available to answer any questions you may have in this matter.

Thank you for this consideration.

Sincerely,

Darrell Bazzell
Secretary

Attach.

cc: Legislative Fiscal Bureau
Department of Administration

SUBJECT: Wisconsin Public Service land acquisition - Marinette and Oconto Counties.
NOVEMBER TELECONFERENCE BOARD MEETING

PRESENTED BY: Darrell Bazzell and Richard Steffes

Summary: The Department has obtained agreement to purchase 9,239 acres of land in fee title and easement rights on 383 acres in the northeastern Wisconsin Counties of Marinette and Oconto from Wisconsin Public Service Corp. for \$25,000,000. The land includes 70 miles of Peshtigo River frontage surrounding the following flowages: Caldron Falls, High Falls, Johnson and Potato Rapids. Also included is a six-mile free flowing stretch of the river. The land is wooded with a mix of conifer and hardwoods and the land is in an undeveloped and natural condition except for a number of boat landings and campsites. In addition, 3,268.5 acres of submerged land will be conveyed to the Department.

The Department requests that the Board establish a new project, the Peshtigo River Shoreline Project with a goal of 12,890.5 acres and boundaries based on the land included in this transaction. Local involvement and a thorough resource analysis will contribute to future boundary, acreage goal and management recommendations.

Due to the size of the transaction, the Department requests that the Board authorize "borrowing ahead" from the Stewardship Program's bonding authority for the first installment of this purchase. This will protect the exceptional Peshtigo River property while completing currently pending transactions for conservation projects in other parts of the state.

RECOMMENDATION: That the Board: 1) Establish the Peshtigo River Shoreline Project with an acreage goal of 12,890.5 acres, 2) Approve the purchase of 9,239 acres in fee title and a scenic easement on 383 acres at a price of \$25,000,000 and acceptance of title to submerged lands, and 3) Authorize the Department to "borrow ahead" from the Stewardship Program's debt authority in the amount of \$13,500,000 for this transaction.

LIST OF ATTACHED MATERIALS:

- No Fiscal Estimate Required
- No Environmental Assessment of Impact Statement Required
- No Background Memo

- Yes Attached
- Yes Attached
- Yes Attached

APPROVED:

R. Steffes
Real Estate Director, Richard E. Steffes - LF/4

Steven W. Miller
Administrator, Steven W. Miller - AD/5

Darrell Bazzell
Secretary, Darrell Bazzell - AD/5

11-15-01
Date

11-15-01
Date

11-15-2001
Date

- cc: R. Steffes - LF/4
- L. Jahns - AD/5
- R. Roden - LF/4
- P. DeLong - FR/4
- R. Kazmierczak - Green Bay

**Motion Regarding WPSC Transaction
November 16, 2001 Teleconference
of the NRB**

Modify the Department's recommendation by adding the following:

4) direct the Department to commence a planning process, with input from local residents, landowners and the business community, to develop a master plan for the land being acquired, 5) that consideration be given to naming this project the "Peshtigo River State Forest", subject to the local planning *review* ~~results~~ and 6) that, consideration be given to a reasonable acreage be added to the Tommy G. Thompson Centennial State Park to improve the park's operation capacity.

approved

6-0

by NRB

CORRESPONDENCE/MEMORANDUM

DATE: November 15, 2001 FILE REF: NF-784
 TO: Governor McCallum
 FROM: Darrell Bazzell *DB*
 SUBJECT: Proposed Land Acquisition, Wisconsin Public Service Corporation Tract, File # NF-784,
 Approval Requested by December 21, 2001

1. PARCEL DESCRIPTION:

Peshtigo River Shoreline Project
 Marinette and Oconto Counties

Grantor:

Wisconsin Public Service Corporation
 C/o Larry Weyers, CEO
 PO Box 19002
 Green Bay, WI 54307-9002

Acres: 9,239Price: \$25,000,000Appraised Value: \$24,200,000 (DNR); \$64,400,000 (WPSC)Interest: Purchase in fee title of 9,239 acres; easement and submerged lands listed belowImprovements: Public Boat LandingsLocation: Most of the tract is located thirteen miles southwest of the City of Wausaukee, in western Marinette County, with 640 located in northeastern Oconto County.Land Description: The subject area is comprised of generally level forest land having diversified forest cover featuring a full range from open fields to large-growth forest.

<u>Covertypes Breakdown:</u>	<u>Type</u>	<u>Acreage</u>
	Wooded Lowland or Wetland	1,389
	Wooded Upland	7,850
	TOTAL	9,239

Zoning: Shorelands and WetlandsPresent Use: Part of Electric Generation and Public RecreationProposed Use: Scenic Protection and Public RecreationTenure: 73 yearsProperty Taxes: Currently tax exempt; estimated PILT, \$450,000Agreement Date: November 9, 2001

2. JUSTIFICATION:

The Department recommends purchase of the 9,239-acre Wisconsin Public Service Corporation property to provide new opportunities for public recreation, to protect an area of scenic waterways, lakes, and large forested areas, and to allow natural resource management for the Peshtigo River Scenic Shoreline.

This area is the gem of Marinette County. It is at the center of the regions' tourism and outdoor recreation industry and as such is an invaluable economic and environmental asset to Wisconsin and to the surrounding communities. It is little changed since the 1920s thanks to the careful stewardship of its current owner, Wisconsin Public Service Corporation. This purchase will protect forever nearly 100 percent of the Caldron Falls Flowage -- a premier wilderness area with all the flavor of the Canadian north.

Recreation opportunities abound on this property. The Peshtigo River has been a favorite recreation destination for Wisconsin citizens for decades. The free flowing fly-fishing portion of the Peshtigo has a reputation for excellence and scenic beauty; whitewater paddlers challenge themselves on its rapids and fourteen developed boat landings provide excellent access to the flowage waters.

There has been very strong public support for the preservation of this unique area - from local landowners and businessmen, to town, county and state officials. This purchase also encompasses a number of sites identified in our Land Legacy Study as premier examples of natural heritage, areas of great esthetic beauty, resource protection and preservation opportunities and recreation interests.

Because the land is currently under Federal Energy Regulatory Commission License due to its status as a hydro electric project, it is at some point vulnerable or removal from that license, at which point it could be developed and lost as a public environmental and recreational asset. Its size and status allows a reduced value, about \$70 per foot of water frontage, which would be much higher if the land were fragmented into many unregulated private ownerships. An example of the temporary nature of FERC protection is the drop in protection in 1984 on the famed Chippewa Flowage.

Location: The Wisconsin Public Service Corp. (WPSC) Peshtigo River Purchase comprises approximately 70 miles of the Peshtigo River frontage and 9,239 acres (not including 3,268.5 acres of submerged land associated with the river's flowages also being conveyed to the state). The majority of the property lies approximately 20 miles northwest of Crivitz with the Potato Rapids flowage lying approximately three miles north of Peshtigo. A section of the purchase is adjacent to Wisconsin's newly created Tommy G. Thompson Centennial State Park.

The Peshtigo River Purchase includes Caldron Falls Flowage, a 1,180-acre reservoir; High Falls Flowage, a 1,670-acre reservoir; Johnson Falls Flowage, a 158-acre reservoir; the Fly Fishing Stretch of the Peshtigo River; and Potato Rapids Flowage, a 281-acre reservoir.

Purchase Agreement: The Department of Natural Resources (DNR) is purchasing the property from the Wisconsin Public Service Corporation (WPSC); the land is associated with the company's hydroelectric projects on the Peshtigo River. The purchase price for the property is \$25 million, which will be paid for over three years from Wisconsin's Stewardship 2000 Fund.

Natural Features: The upper reaches of the Peshtigo River Purchase lands are characterized by two flowages, Caldron Falls and High Falls. These flowages support a good fishery for muskellunge, walleye, bass and panfish. Their forested shorelines feature numerous scenic rock outcrops and islands. The Johnson Falls Flowage lies downstream from High Falls Flowage and exhibits a narrower river channel, steeply wooded banks and an excellent fishery. The Fly-Fishing Stretch of the Peshtigo River downstream from Johnson Falls offers some of the most scenic fishing for trout in the Midwest. Potato Rapids Flowage near Peshtigo is a scenic flowage with an associated marshland habitat that also supports a warmwater fishery. The land is mostly scenic, forested upland with a healthy, diverse wildlife population that includes eagles, osprey, deer and bear.

Management Plans: WPSC project lands have historically been open to public recreation under the company's hydroelectric project. The DNR will continue to promote public recreation on these properties

and protect natural features. A specific management plan for the properties will be developed through the master plan process. Public input into the management of these lands will be key to the plan's development. The master plan will be based on an integrated approach to management that will include sustainable forestry, wildlife, fish and non-game management as well as the development of recreational activities such as hunting, snowmobiling, hiking, and cross county skiing -- activities currently taking place on these lands. The DNR anticipates continuing current leases on the property with Marinette County for operation of Twin Bridge County Park and with the Town of Stephenson for the town park on Boat Landing Three Road. The boat landings WPSC currently operates on the flowages will remain open for public access. The recently established Gov. Tommy G. Thompson State Park, at over 2,100 acres, abuts the WPSC land and will be the focus for facility development for the public.

3. FINANCING:

The purchase price of \$25,000,000 will be paid according to the following schedule, with 5% interest on the unpaid balance:

- (FY02) December, 2001: \$13,500,000
- (FY03) January, 2003: \$6,500,000
- (FY04) January 2004: \$5,000,000

WPSC feels the property value is \$64,400,000 based on their appraiser's report. Therefore, WPSC is characterizing the transaction as a series of separate sales and donations with the interest considered price adjustments for time. The net result, and the state's positions, is that the state will acquire 9,239 acres in fee title, 383 acres by easement, plus 3,268.5 submerged acres, at a cost of \$25,000,000 plus \$850,000 for interest (or price inflation). If the second and third installments are paid at earlier dates, then the interest cost will be less.

Accounting for the WPSC costs is shown on the attached table. It will be necessary to "borrow ahead" for the first payment of \$13,500,000 and then to account for that amount in FY03, 04 and 05.

4. ACQUISITION STATUS OF THE PESHTIGO RIVER SHORELINE PROJECT:

Established: 2001
 Acres Purchased to Date: 0.0
 Acquisition Goal: 12,890.5* Acres
 Percent Complete: 0.0%
 Cost to Date: \$25,000,000

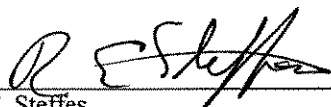
*Includes submerged land and easement areas.

5. APPRAISALS:

<u>Appraiser:</u>	<u>Value:</u>
Dan Heath (Staff Appraiser)	\$24,200,000
Edward Steigerwaldt (Private Appraiser, retained by WPSC)	\$64,400,000

Comments: The appraiser's used a market data approach with several sales cited. The primary difference between the reports was due to a differing assumption by Mr. Steigerwaldt for the Highest and Best Use. He assumed that development for residential use would be approved by the Federal Energy Regulatory Commission, which currently licenses the property as part of the Peshtigo River Hydro project. Mr. Heath assumed less development potential due to the FERC license restrictions. The final price of \$25,000,000 (\$2,706 per acre) was the best price that could be negotiated with the grantor.

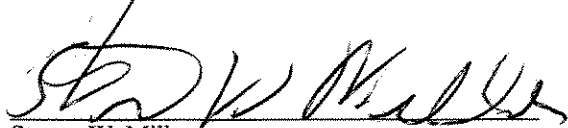
RECOMMENDED:


Richard E. Steffes

11-15-01
Date


Bureau of Legal Services

11/15/01
Date


Steven W. Miller

11/15/01
Date

RES:jp

PAYMENT SCHEDULE AND ACCOUNTING – WPSC LANDS

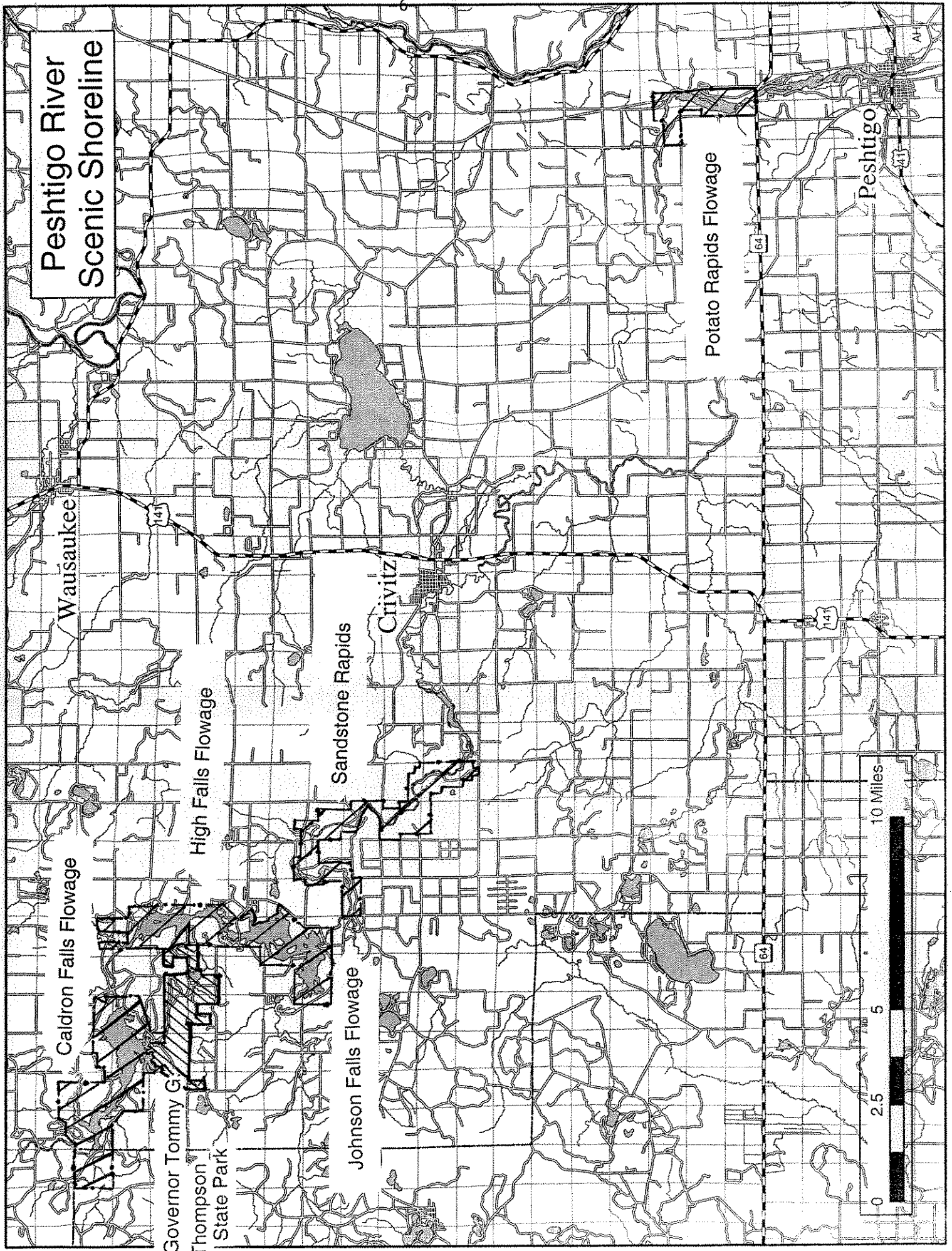
Payment	Date	FY	Stewardship Allotment*	Current Available Balance**	Accounting for WPSC Costs***	Balance after Accounting
\$13,500,000	December 2001	02	\$27,250,000	\$2,000,000	\$0	\$2,000,000
\$6,500,000	January 2003	03	\$37,750,000	\$29,450,000	\$8,400,000	\$21,050,000
\$5,000,000	January 2004	04	\$37,750,000	\$29,450,000	\$8,300,000	\$21,150,000
		05	\$37,750,000	\$37,750,000	\$8,300,000	\$29,450,000

* Assumes \$7,250,000 of overall Stewardship Budget has been allotted to NCO's.

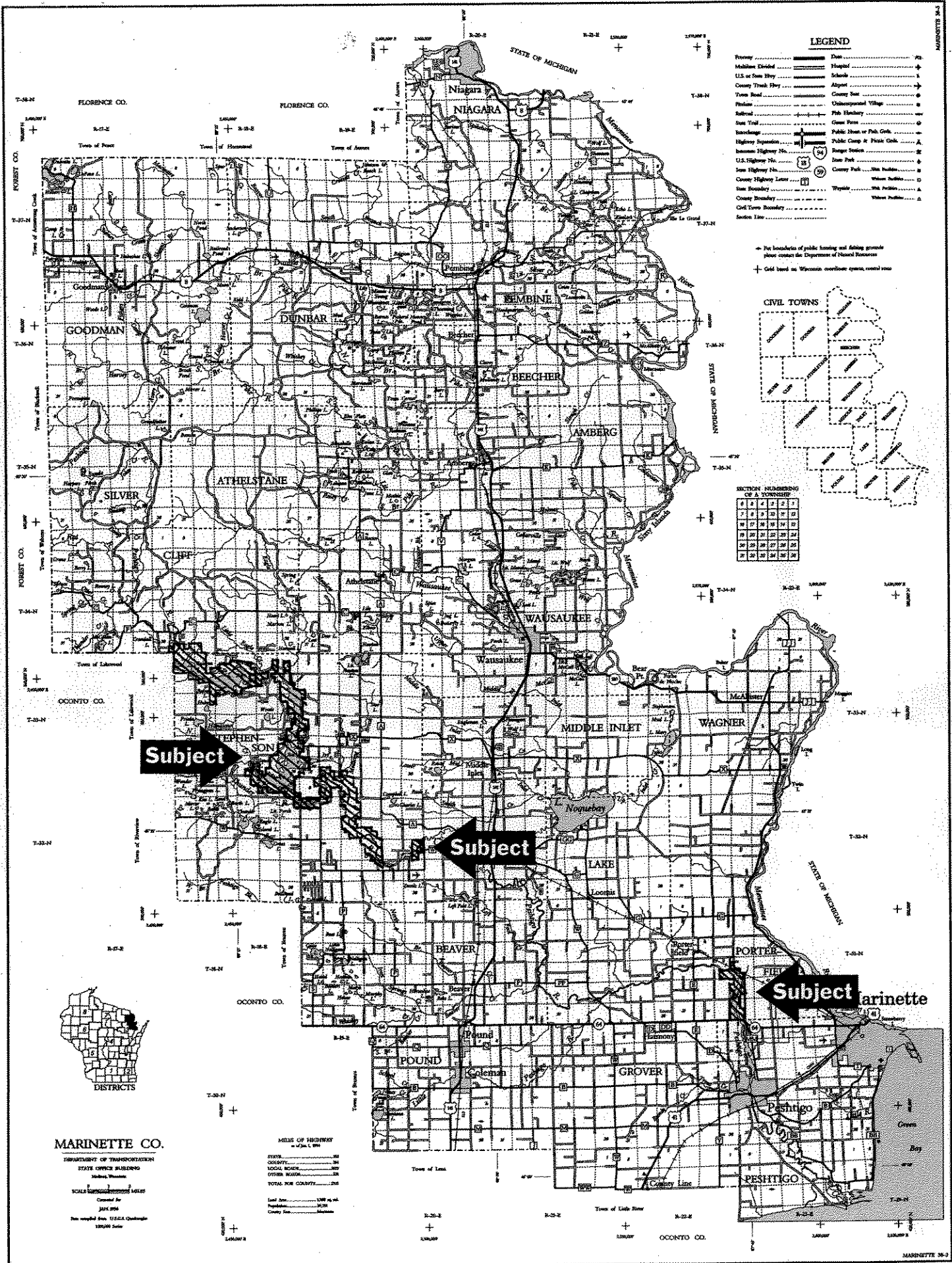
** Accounting for "Great Addition" reduces balances in FY02, 03, and 04 by \$8,300,000/yr.

*** The Department will need to "borrow ahead" for the 1st payment of \$13,500,000. That amount is then accounted for by requesting less debt authority and spending less in FY03, 04 and 05.

Peshigo River Scenic Shoreline



MARINETTE 24



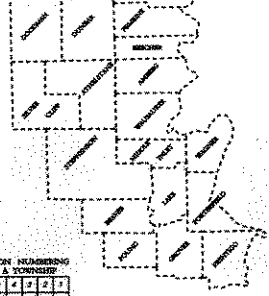
LEGEND

- Tramway
- Michigan Divided
- U.S. or State Hwy
- County Trunk Hwy
- Town Road
- Platons
- Subdiv
- State Trail
- Interchange
- Highway Separation
- Interstate Highway No.
- U.S. Highway No.
- State Highway No.
- County Highway Letter
- State Boundary
- County Boundary
- Civil Town Boundary
- Section Line
- Ditch
- Hospital
- Schools
- Alphabet
- County Seat
- Unincorporated Village
- Post Office
- General Store
- Public House or Park Code
- Public Camp or Picnic Code
- Danger Station
- State Park
- County Park
- State Park
- Wharf
- Water Station
- Water Station

For boundaries of public landing and fishing grounds
 please contact the Department of Natural Resources

+ Grid based on Wisconsin coordinate system, revised 1983

CIVIL TOWNS



SECTION NUMBERING OF A TOWNSHIP

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40



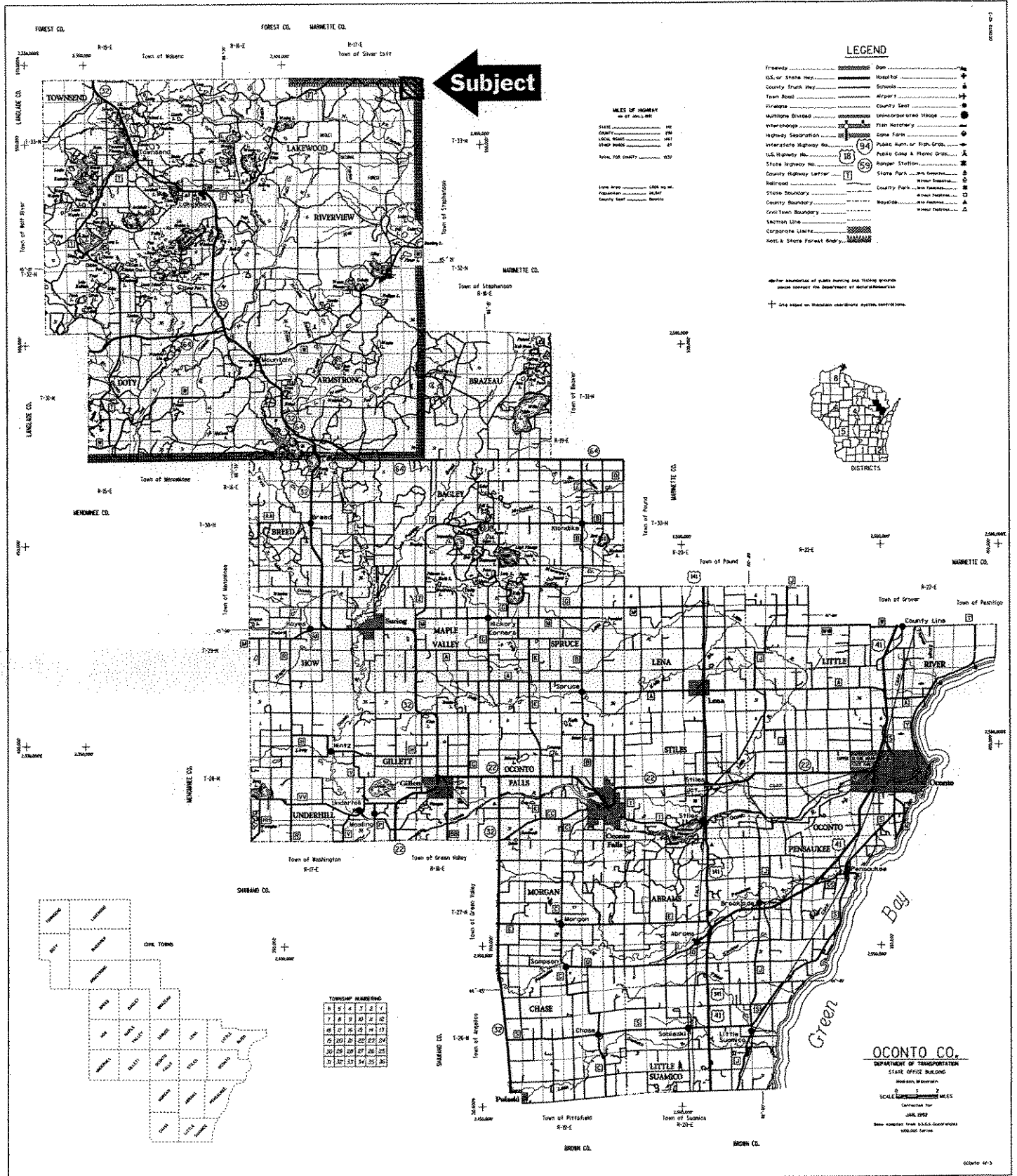
MARINETTE CO.
 DEPARTMENT OF TRANSPORTATION
 STATE OFFICE BUILDING
 LANSING, MICHIGAN

SCALE: 1:250,000
 Created for
 JUNE 1964
 Not suitable for U.S.G.A. Contouring
 1962M Series

MILES OF HIGHWAY
 as of July 1, 1964

STATE	.....	36
COUNTY	.....	36
LOCAL ROADS	.....	36
OTHER ROADS	.....	36
TOTAL FOR COUNTY	.....	144

Cost: 1964 \$100.00
 Population 100,000
 County Seat Marquette



Subject

LEGEND

- Freeway
- U.S. or State Hwy.
- County Trunk Hwy.
- Town Road
- Traverse
- Multilane Divided
- Interchange
- Highway Separation
- Interstate Highway No.
- U.S. Highway No.
- State Highway No.
- County Highway Letter
- Section
- Store Boundary
- County Boundary
- Civil Town Boundary
- Section Line
- Corporate Limits
- North & State Parcel Boundary
- Dam
- Hospital
- School
- Airport
- County Seat
- Unincorporated Village
- Fire Station
- Camp Farm
- Public Camp & Range Gravel
- Ranger Station
- State Park
- Wilderness
- Water Source
- County Park
- Area Forest
- Roadside
- Water Feature

MILES OF HIGHWAY
as of 12/31/87

STATE	142
COUNTY	278
LOCAL ROAD	2647
OTHER ROAD	47
TOTAL FOR COUNTY	3034

Line Area 100 to 1000
Population 26,847
County Seat Oconto

For a list of public hunting and fishing grounds please contact the Department of Natural Resources

± One based on National coordinate system corrections

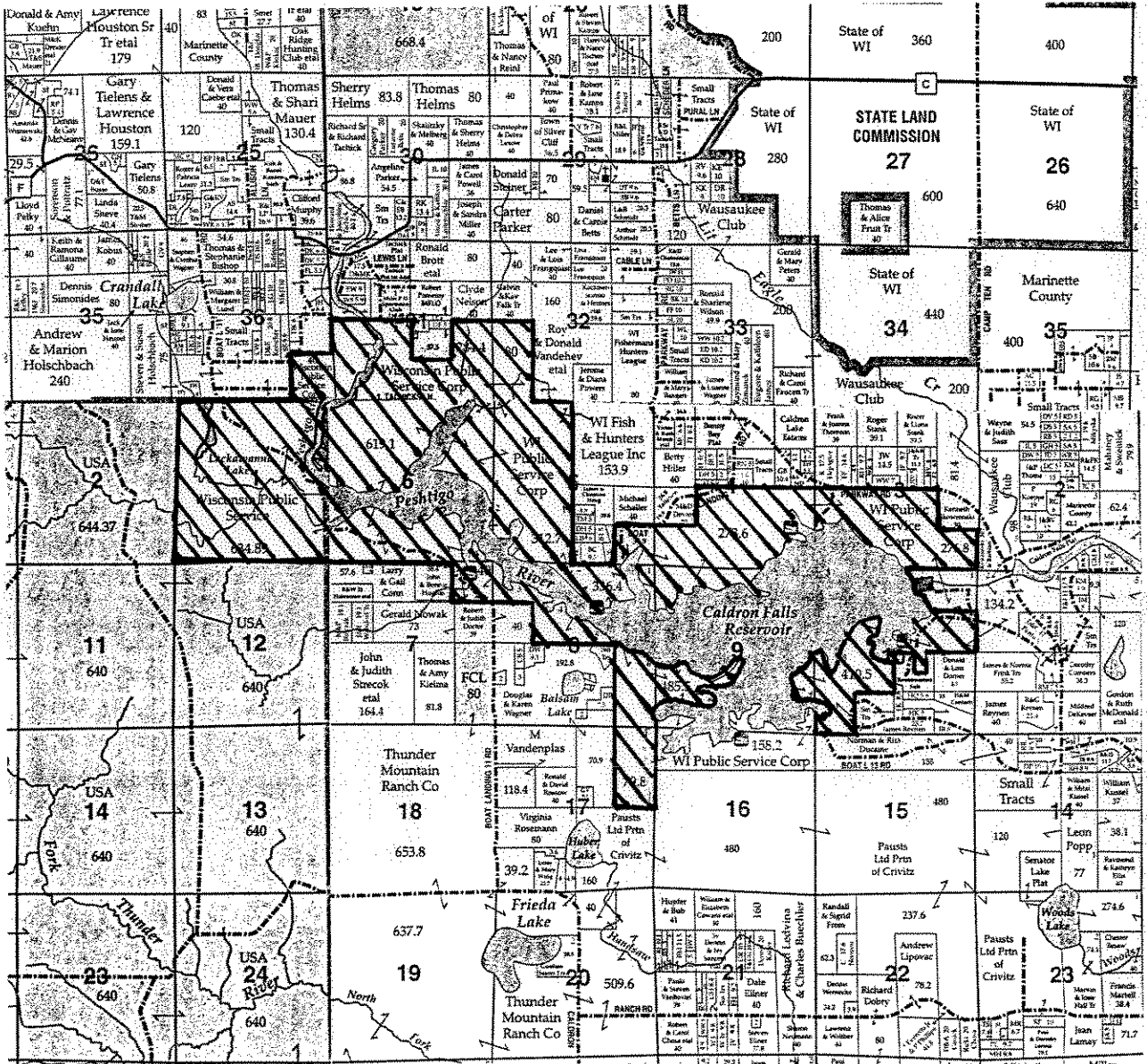


TOWNSHIP NUMBERING

6	5	4	3	2	1
7	8	9	10	11	12
13	14	15	16	17	18
19	20	21	22	23	24
25	26	27	28	29	30
31	32	33	34	35	36

OCONTO CO.
DEPARTMENT OF TRANSPORTATION
STATE OFFICE SULLING
SULLING, WISCONSIN
SCALE 1" = 2.5 MILES
JAN 1987
Revised from 1985 Survey
1000000000

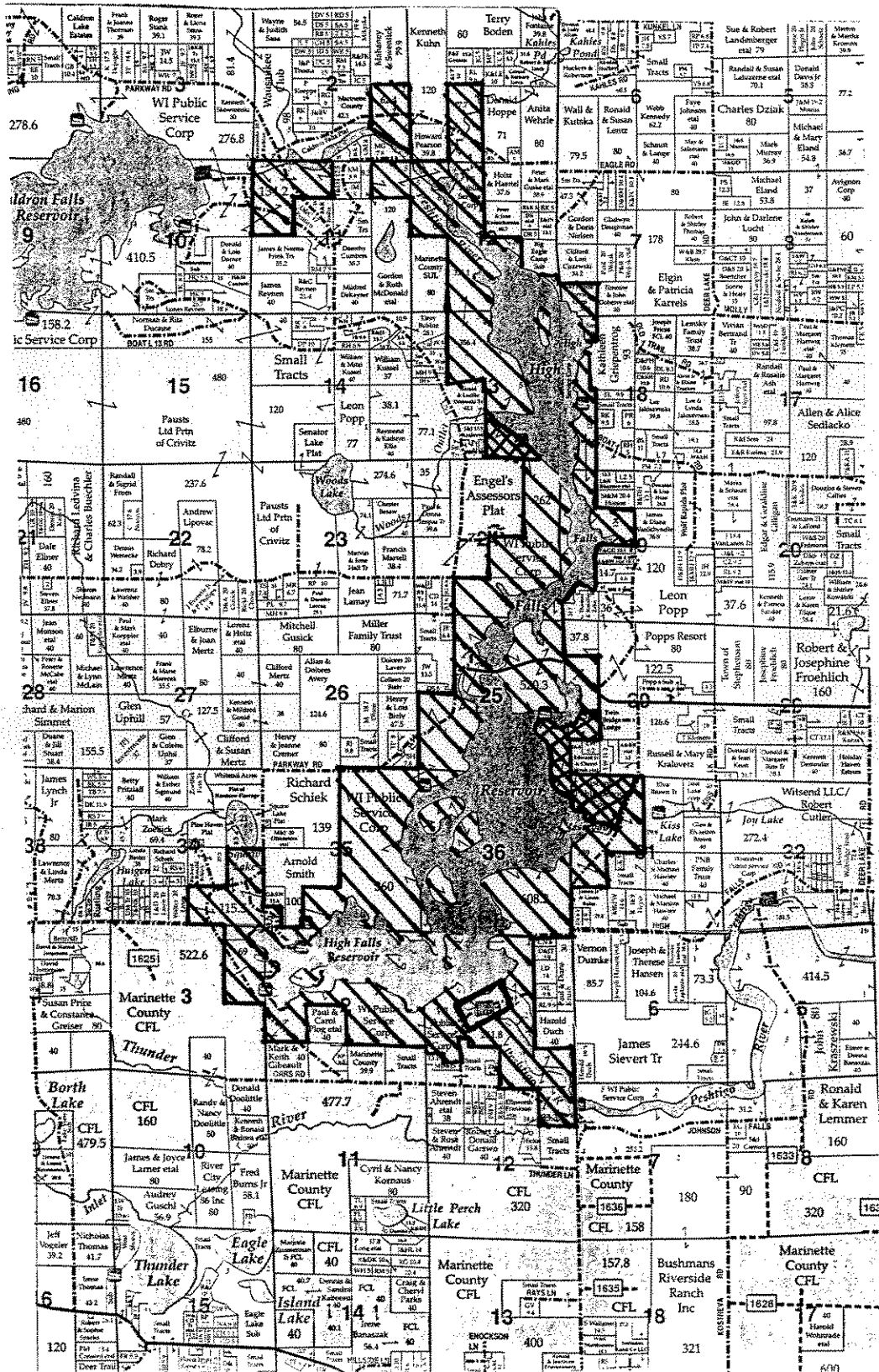
Town of Silver Cliff, Marinette County, T34N & 33N – R18E
Town of Stephenson, Marinette County, T34N – R17E
Town of Lakewood, Oconto County, T33N – R17E



Subject Property – Fee

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of Cloud Cartographics, Inc."

Town of Stephenson, Marinette County, T32N & 33N - R18E & 19 E



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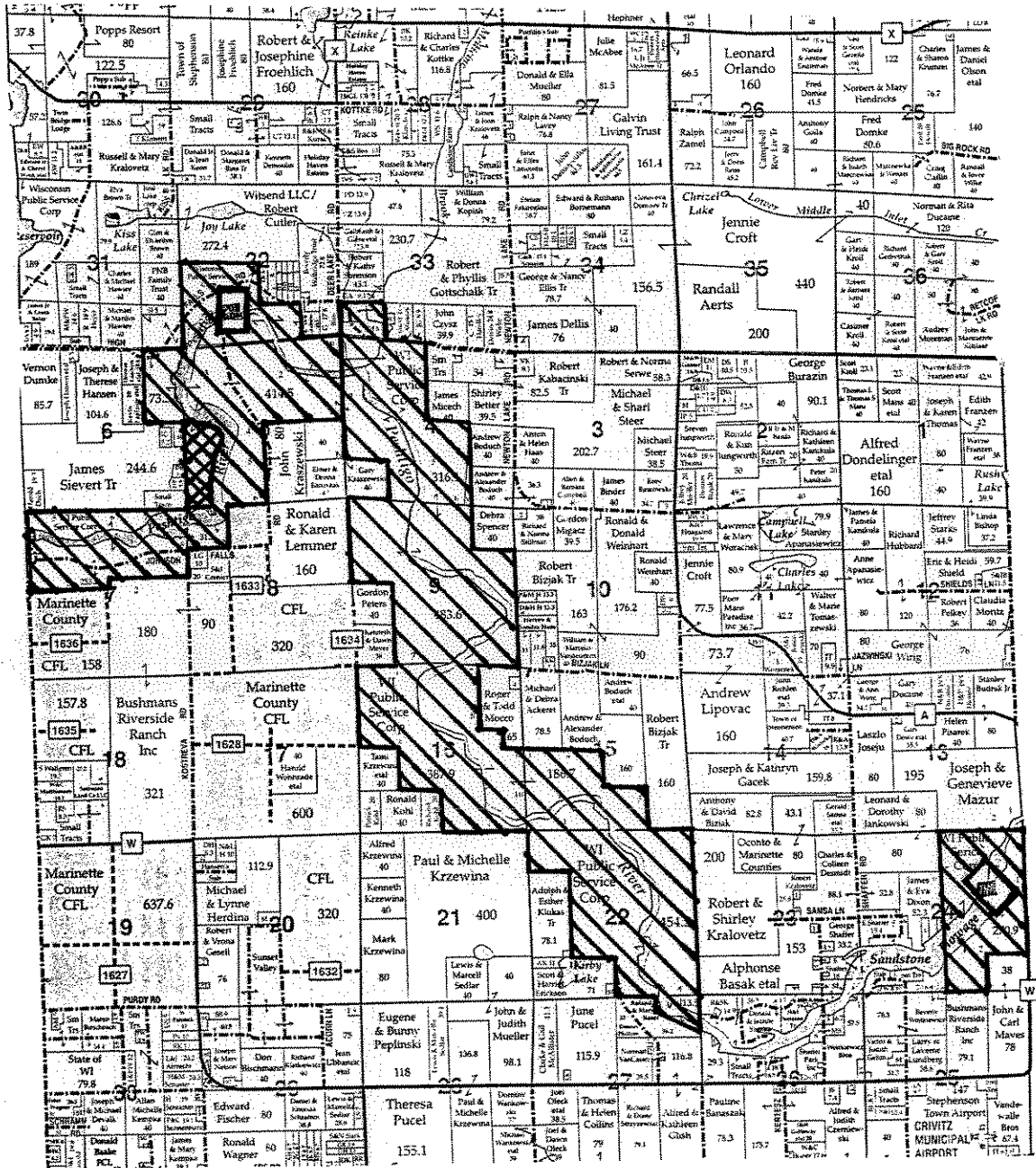


Subject Property - Fee

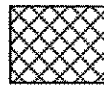


Subject Property - Easement

Town of Stephenson, Marinette County, T32N & 33N - R19E



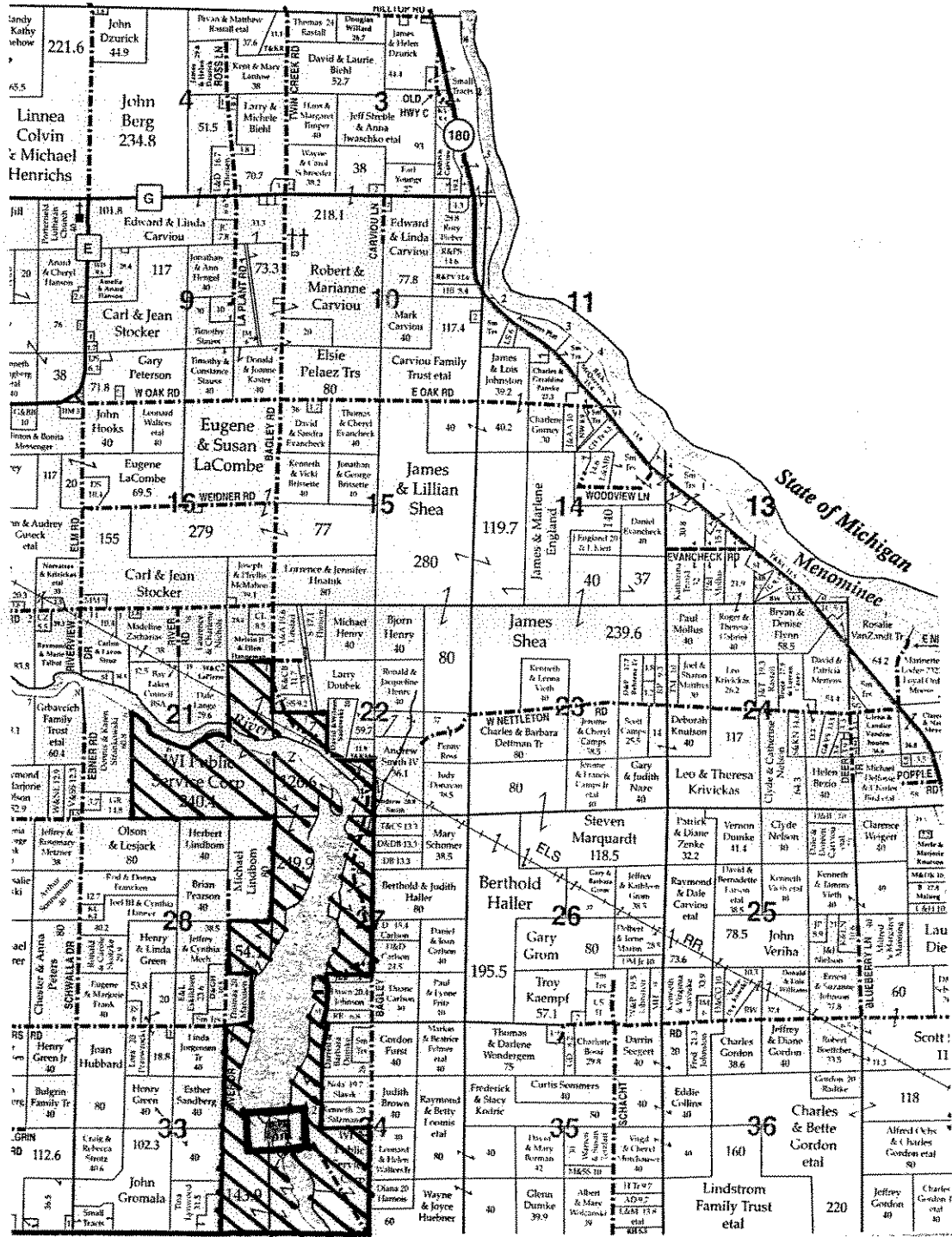
Subject Property - Fee



Subject Property - Easement

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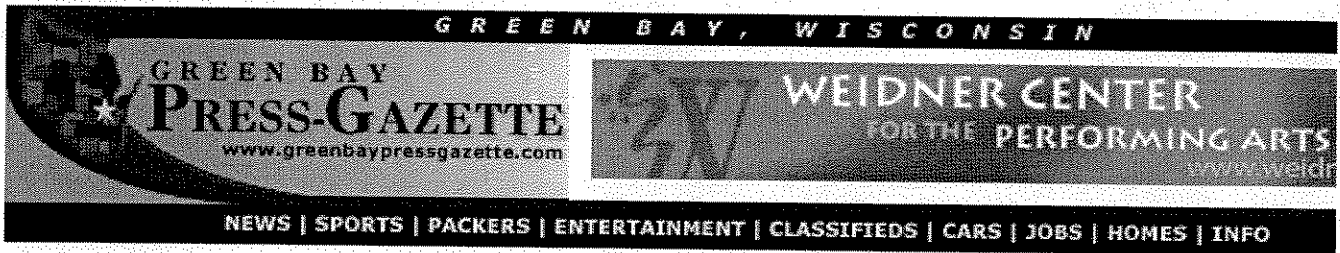
Town of Porterfield, Marinette County, T31N - R22E



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Subject Property - Fee



Green Bay Weather
 Temp: 69 °F
 Hi: 80 °F
 Lo: 58 °F

LOCAL NEWS

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Posted Aug. 14, 2001

WPS land deal confuses some residents

'We hope to get educated on what the real facts are'

By Nathan Phelps
Press-Gazette

STEPHENSON — Residents trying to protect 9,500 acres along the Peshtigo River in Marinette County want answers from the state Department of Natural Resources Board about the status of the project.

The board is meeting in Marinette County today and Wednesday and plans to tour lands that Wisconsin Public Service Corp. has proposed selling.

The DNR has expressed an interest in those lands but is apparently trying to get Gov. Scott McCallum to veto a proposal that could make happen through another agency.

"We're a little confused here," said Leon Popp, a High Falls Flowage resort owner attend the meeting.

"We hope to get educated on what the real facts are because I don't really know

Under the state budget approved by the Assembly and Senate, the Board of Con Public Lands would buy the property, then trade with the DNR for lands for fores management.

The Commissioners of Public Lands is not authorized to use public lands or trust invest in property, according to state law.

DNR Secretary Darrell Bazzell said the DNR is interested in protecting those land provision awaiting approval has sent up red flags.

Concerns include timing of the provision and removal of state oversight from the approval process.

The provision caught the department by surprise while it was in negotiation with

What's next

The state Dep: Natural Resour meeting begin a.m. Wednesd Western River 1821 Riverside Marinette.



"We found Joint Finance (Committee) voting on a budget provision ... with no known budget provision that, let's just say, seemed a little atypical," Bazzell said. "People are asking ... whether or not the current budget provision is in fact the best vehicle by which the land can be transferred to state ownership."

Earlier this month Reps. Lorraine Seratti and John Gard released statements saying they and Bazzell were trying to veto the measure allowing the Board of Commissioners to buy the land.

Seratti, R-Spread Eagle, said the Board of Commissioners is capable of negotiating the land and can manage land until transferring it to the DNR.

"I'm certainly hopeful the governor will not take their lead and veto this," she said.

Ray Booth, a Silver Cliff resident who supports saving the area, said the provision is taking the DNR too far out of the loop.

"The DNR really needs to have a good grip on this. They're the ones ... who are going to manage the land and everything else," he said. "I would like to see them have a good process for the purchase process."

Bazzell pointed out a land swap, as proposed in the provision, would take away timber sales in other counties. He said the Board of Commissioners of Public Lands generates revenue from timber sales in those areas, but that the DNR manages forests differently.

WPS has maintained throughout the process it would like to sell the land to the state, but the groundswell of preservation support from residents.

"The people up there want to keep it the way it is, and we're all for that, too, but the DNR as Public Service is not the best steward of that land any more. It ought to be someone else," said Kerry Spees, a spokesman with WPS. "If it's good for the people up there, it's good for us."

He added the bill doesn't mean the Board of Commissioners will buy the land. It just opens that possibility.

"We'd like to get this thing all cleared up and find out exactly what's going on," said Bazzell.

The WPS land issue is expected to be addressed Wednesday by the Natural Resources Board.

"They're going to talk about it and consider perhaps giving the department some guidance to try to protect that land and be involved in the negotiations," said Steve Bazzell, state administrator of the division of land.

"The board is concerned about seeing the land adequately protected and that the DNR is involved in that process."

Arnie Behnke, chairman of the Stephenson Town Board is going to the meeting.

"I can't believe we have politicians that would put politics ahead of something of value," Behnke said. "I don't know what the big beef is."

Both WPS and the state are in the process of assessing the land value. If the process moves forward, negotiations over price will likely occur with WPS going to the federal government with the proposal to dispose of the land.

Spees said the issue may not get resolved until next year.

Popp said things appeared to be moving smoothly when Bazzell toured the area. Popp's been taken aback by the apparent changes in Madison.

"We want to see the lands preserved one way or another here," Popp said. "If they play political games to do it, that's what we have to do, I guess."

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Legislative Fiscal Bureau

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December 18, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Purchase and Staffing Request-- Peshtigo River Project -- Agenda Item IX

REQUEST

The Department of Natural Resources (DNR) requests approval to spend \$25,000,000 from the Warren Knowles-Gaylord Nelson Stewardship 2000 land acquisition subprogram to purchase approximately 9,239 acres of land and easements on an additional 383 acres from Wisconsin Public Service Corporation (WPSC) for the proposed Peshtigo River shoreline project in Marinette and Oconoto Counties. The transaction would also convey 3,268.5 acres of submerged land to the state. In addition, the Department requests approval to borrow ahead \$13.5 million in stewardship bonding for the first installment of the purchase to take place as early as December, 2001. Finally, DNR requests \$185,900 SEG in 2001-02 and \$424,900 SEG in 2002-03 from the forestry account of the conservation fund with 2.0 positions for the management and operation of the properties associated with this transaction.

BACKGROUND

The 1999-01 biennial budget act (1999 Act 9) provided \$460 million in bonding for a ten-year reauthorization of the Warren Knowles-Gaylord Nelson stewardship program beginning in 2000-01 for the purpose of acquiring land to expand recreational opportunities and protect environmentally sensitive areas. The annual bonding authority under the program was \$46 million, ending in fiscal year 2009-10. Of the annual authority, \$28.5 million in 2000-01 and \$34.5 million in 2001-02 is allocated to general land acquisition for conservation and recreation purposes. The 2001-03 biennial budget (2001 Act 16) increases the overall bonding authority to \$572 million and the annual bonding allocation from \$46 million to \$60 million beginning in 2002-03 (with \$45 million each year available for the land acquisition subprogram).

Both the Department and nonprofit conservation organizations (NCOs) are eligible to use funding from the land acquisition subprogram. The statutory priorities enumerated for land acquisition funding are: (a) acquisition of land that preserves or enhances the state's water resources (including land along the shores of the Great Lakes); (b) acquisition of land for the stream bank protection program; (c) acquisition of land for habitat areas and fisheries; (d) acquisition of land for natural areas; and (e) acquisition of land in the Middle Kettle Moraine.

Currently, with the approval of the Natural Resources Board, the Joint Committee on Finance and the Governor, the Department can obligate up to the entire allocation under the land acquisition subprogram for large or uniquely valuable acquisitions. Funding of \$25 million has been utilized from the reauthorized program for the purchase of approximately 32,000 acres from Packaging Corporation of America in northern Wisconsin commonly referred to as the Great Addition. At its May 23, 2001, meeting, the Natural Resources Board approved an allocation plan for stewardship funding for fiscal year 2001-02. Of the \$34.5 million in the land acquisition subprogram this year, the Department will allocate \$27.25 million to DNR land purchases and \$7.25 million for NCO grants. The allocation plan approved by the Board indicates that \$8.3 million of the Great Addition purchase (one-third of the purchase) would be applied against the 2001-02 land acquisition program allocation (leaving \$18.95 million for other DNR land purchases).

Under s. 23.0917(6) of the statutes, the Joint Committee on Finance reviews all stewardship projects of more than \$250,000. DNR must notify the Co-Chairs of the Committee in writing of the proposed project. If the Co-Chairs of the Committee do not notify DNR within 14 working days after the Department's notification that a meeting has been scheduled to review the request, then DNR may obligate funding for the project. If an objection to the project is made, then the Co-Chairs must schedule a meeting to review the request. The Department may then obligate funding for the project only with Committee approval.

DNR notification of the proposed purchase was received by the Co-Chairs on December 4, 2001. On December 6, 2001, the Co-Chairs notified DNR that a meeting would be scheduled to consider the proposed purchase.

ANALYSIS

Stewardship Request

The acreage proposed for purchase from WPSC consists of large blocks of forested land surrounding several flowages and river areas in Marinette and Oconoto Counties. In total, the parcel would include approximately 9,239 acres and 60 miles of water frontage on four flowages and a six-mile stretch of the Peshtigo River. In addition to the shoreline property, approximately 3,268.5 acres of submerged land (underneath the flowages and the riverbed) would be conveyed to the

Department. Flowage rights would be retained by WPSC to permit the ongoing operation of their hydroelectric projects along the waterway. The Nicolet National Forest and the Marinette County Forest are both located in proximity to the property. The purchase is proposed to be completed in four stages over two or more years. While DNR and WPSC appraisals differ somewhat on estimated acreages and on the amount of frontage conveyed on each flowage, the actual acreage conveyed would be determined by survey. Therefore, acres and water frontage described in the following discussion are approximate.

Land surrounding the Caldron Falls flowage is mostly forested, containing aspen, cedar, red pine, oak, conifers, jack pine, and northern hardwoods. Approximately 80% of the property is upland, and relatively level to rolling. The combined WPSC holdings being considered for purchase on Caldron Falls total 2,910 acres (plus 1,180 flowed acres) and contain approximately 98,700 feet of irregular frontage, with 80,000 feet along the Caldron Falls flowage and on the Peshtigo River. Remaining frontage surrounds an unnamed warm water stream and Lackawanna Lake. The northwest corner of the reservoir contains a deep bay, which may be accessed by one of the five public boat landings present on the property surrounding the flowage. The reservoir is a 1,180-acre hard water drainage lake, dark brown in color and with a maximum depth of 40 feet. The shoreline is comprised mainly of sand, with a mix of muck, gravel, or rubble occurring in areas. Fishing resources include muskellunge (rated a Class A fishery), northern pike, walleye, bass, and panfish. The only property on the flowage not owned by WPSC was approved for purchase by DNR for the Tommy G. Thompson (Caldron Falls) Centennial State Park. WPSC would retain approximately 104 acres on the flowage for its hydroelectric facilities.

WPSC holdings on the High Falls flowage and reservoir total 2,954 acres with 93,100 feet of water frontage. A portion of the water frontage includes Eagle Creek, a class II trout stream, seven small unnamed ponds, and 230 feet of frontage on the west side of Kiss Lake. The lake has an area of 40 acres and a depth of 22 feet, and contains primarily bass and panfish. The remaining frontage includes 11,300 feet of frontage along the Peshtigo River north of the flowage and 10,200 feet along the river south of the flowage. The reservoir spans 1,670 acres, and has a maximum depth of 54 feet. The shoreline is approximately half sand and half muck, with limited gravel and rubble in areas. Fishing resources include muskellunge, northern pike, walleye, bass, and panfish. Approximately 93% of the property is upland, and relatively level to rolling with some areas of rock outcropping along the river's edge. Forest cover on the property is extensive, and includes red pine, aspen, jack pine, scrub oak, white pine, swamp hardwood, northern hardwood, white birch, and swamp conifer. There are six public boat landings on the property surrounding the flowage, and WPSC owns over 96% of the shoreline around the reservoir. Five small privately owned parcels clustered in the middle of the flowage on the east bank hold the remaining 4% of frontage. Marinette County operates a 62-site campground and day use area on WPSC property along the western shore of the frontage. The County currently leases the 53-acre area for \$1 per year under a 99-year lease; however, the lease can be terminated at any time with a 90-day notice. The cost of removing buildings associated with the campground (support building, contact station, showers, and pit toilets) could approach \$20,000. In addition, WPSC leases a boat launching access to a private business and a small area for a town park. Both leases are also subject to termination with a

90-day notice. While DNR indicates the leases would likely continue under state ownership, they would be considered as part of the Department's overall master planning process for use of the property. DNR has proposed to purchase approximately 2,724 acres (plus 1,670 flowed acres) on High Falls. WPSC would retain approximately 65 acres for its hydroelectric facilities, and 165 acres for future development.

Property along Johnson Falls totals 988 acres with approximately 33,500 feet of water frontage. This section of the Peshtigo River is considered a Category 5 trout stream, and is managed as an artificial-lure only fishery. The parcel also includes 1,500 feet of frontage on the Thunder River, a class II trout stream. The reservoir is approximately 68 acres, with a maximum depth of 40 feet. The shoreline zone is mostly sand, with limited muck and some gravel and boulders. Fish populations include muskellunge, walleye, bass, northern pike, and panfish. Approximately 94% of the parcel is upland, and relatively level to rolling, with some steep terrain along the riverbank, including a bluff along the north-eastern section of the parcel. Maximum width of the flowage is 550 feet, and in most areas riverbanks drop between 40 and 60 feet to the water (with a drop of as much as 100 feet in some areas). There are seven sets of rapids along this stretch of the river, ranging from class one to class four whitewater. Forest cover on the property is extensive, and includes scrub oak, red pine, aspen, northern hardwood, oak, and swamp conifer. The parcel is located along a section of the Peshtigo River that is between two dams constructed four miles apart, limiting navigation on this stretch to the area between the dams. There is one public boat landing on the property. DNR has proposed to purchase approximately 860 acres on Johnson Falls. WPSC would retain 58 acres for its hydroelectric facilities, and 70 acres for future development.

Holdings surrounding Sandstone Rapids include 2,158 acres with approximately 60,000 feet of water frontage. This section of the Peshtigo River is also classified as a Category 5 trout stream, parts of which are managed as an artificial lure only fly-fishing area. Approximately 90% of the parcel is upland. Frontage along Medicine Brook, a class II trout stream that empties into the river, is included as well. Forest cover on the property includes hardwood, aspen, scrub oak, red oak, hard and soft maple, cedar, white birch, fir, and spruce. Topography varies from level to steep along the river, with the steepest portion towards the midpoint of the parcel. The property surrounds Sandstone Flowage at its southern end. The flowage is approximately 650 feet wide. A WPSC campground with 50 campsites is also located in the area surrounding the flowage; however, the campground is located on land that WPSC proposes to retain. DNR has proposed to purchase approximately 1,921 acres on Sandstone Rapids. WPSC would retain 89 acres for its hydroelectric facilities, and 148 acres for future development.

Land surrounding Potato Rapids consists of approximately 899 acres with 45,400 feet of water frontage. A portion of the shoreline along the rapids is covered by wild rice beds. The 288-acre reservoir has a maximum depth of 20 feet. The shoreline is mostly sand, with some muck and gravel. Muskellunge, northern pike, walleye, bass, and panfish are all present. Approximately 86% of the parcel is upland, and topography tends to be level to gently rolling, with occasional hills. Forest cover includes aspen, northern hardwood, swamp conifer, swamp hardwood, and scrub oak. There are two public boat landings on the property. DNR has proposed to purchase approximately

824 acres (plus 288 flowed acres) on Sandstone Rapids. WPSC would retain 75 acres for its hydroelectric facilities.

WPSC currently uses a series of dams along the flowages to generate electricity. The properties are part of a hydroelectric power project under the supervision of the Federal Energy Regulatory Commission (FERC), and as such has limits set on its use and development. Land held under these conditions is required to be open for public recreation and held to a certain standard of environmental protection, as approved in land management plans reviewed by the state DNR and the U.S. Fish and Wildlife Service (USFWS). Any change in ownership or management must be approved by FERC, who reviews recommendations from the state natural resources agency and the USFWS regarding resource protection issues. Input from various federal, state, and local government agencies, as well as Indian Tribes and concerned citizen organizations would also be considered. The proposed application for a land use change would need to address all economic and financial aspects of the alteration, and describe the environmental effect that the alteration would have on fish, water quality, wildlife, botanical resources, geology, soils, recreation, land use, and socioeconomic values.

The FERC license has a term of 40 years, and was issued on June 26, 1997, after five years of negotiations between interested parties as to the terms of the license. If there were no federal, state, or local opposition, WPSC could potentially complete the processes required to remove land from the program within a year. However, opposition to the withdrawal could lengthen the removal process, or derail it altogether. Input and approval would be sought from the United States Fish and Wildlife Service and DNR, along with conservation organizations and local government units before the property could be withdrawn by FERC. The license status of the property would determine whether the property would be most appropriately valued as developable or restricted. The value of the property may vary significantly based on its likelihood for release from FERC restrictions which may then allow for private sale and development. The WPSC believes that with a concerted effort release is likely, while others believe state and local opposition to private use and development would maintain the public use requirements of the property under the current FERC license until at least 2037 when the license would be up for renewal by the federal government.

As the property is currently considered a FERC project area, the lands have no listed assessment and are tax exempt. While none of the land is zoned by local municipalities, statewide shoreland zoning ordinances would apply. This would restrict structures within 75 feet of the water's edge, but would allow subdivisions and development. Due to municipal ordinances, any subdivision of plats within the Town of Stephenson would require the approval of the Town Park Commission. If the transaction was approved, the state would be responsible for the payment of aids in lieu of taxes to the Towns of Silver Cliff, Porterfield, and Stephenson in Marinette County and the Town of Lakewood in Oconto County in an amount equal to the tax that would be due on the estimated value of the property at the time it was purchased (generally the purchase price), adjusted annually to reflect changes in the equalized valuation of all land, excluding improvements, in the taxation district. The town would then pay each taxing jurisdiction (including the county and school district) a proportionate share of the payment, based on its levy. Aids in lieu of taxes are

made from a sum sufficient GPR appropriation. Payments for this property would be approximately \$243,000 per year upon the closure of the first stage of the transaction, and would approach \$450,000 per year upon its completion (the property is currently tax exempt).

Two appraisals were commissioned to establish property value estimates, one each by DNR and by WPSC. The two appraisals generated estimations of value of \$24,200,000 (or \$2,619 per acre) and \$40,427,300 (or \$4,377 per acre) respectively. DNR has agreed to purchase 9,239 acres at \$2,706 per acre, for a total of \$25 million.

The first appraisal, prepared by a DNR senior real estate agent and dated November, 2001, determined the value of the property surrounding each of the five flowages, with a final adjustment for the scale of the total transaction. It was assumed that all 9,239 acres as well as the 3,268.5 submerged acres were included in one sale. Highest and best uses were determined to be recreation, rural residential, or residential development. However, the appraiser noted the restrictions placed on the property by the existing FERC license. Given FERC regulations and the process required to achieve the removal of land from license restrictions, the appraiser estimated that the removal process would take at least two years, and applied a 15% downward adjustment to the value of property in recognition of the risk and time delay involved in the process. Therefore, the DNR appraiser valued the total property at \$30 million, less 15% due to the FERC restrictions and less 5% for a single sale to arrive at a valuation of \$24.2 million.

The appraiser estimated the value of the property using the sales comparison approach. This method considers properties recently sold in comparison to the property being appraised, with adjustments made to the sale prices of the comparison properties to reflect differences that may effect per acre value (including size, location, topography, access, etc.). The appraiser selected six comparable sales, with parcel sizes ranging from 96 to 812 acres in size with varying access, amenities, locations, forest cover, and water frontage. Each of the five properties were compared to the three sales considered most comparable, and after adjustments were made to account for differences, a determination of per acre property value was reached. Using this technique and adjusting for the FERC restrictions, the DNR appraiser valued the land surrounding Caldron Falls Flowage at \$8.8 million, High Falls at \$8.55 million, Johnson Falls at \$2.34 million, Sandstone Rapids at \$3.88 million, and Potato Rapids at \$1.93 million for a combined value of \$25.5 million. However, as large-scale purchases tend to sell for a lower price per acre due to volume, a 5% downward adjustment was applied in recognition of the size of the purchase, for a final determination of value of \$24.2 million. Acreage was estimated based on parcel information obtained from WPSC; no surveys were performed to verify. Final acreage would need to be determined prior to closing.

The second appraisal was commissioned by WPSC in September, 2001. The appraiser estimated the total value of the 9,258 acres to be \$40,427,300, or \$4,367 per acre. In determining value, the appraiser was directed by WPSC to assume that it would be possible to rapidly remove all of the property from FERC restrictions, thereby permitting development into private recreational and residential parcels. No adjustments were made to the value of the property to account for any

difficulties in obtaining the release from FERC restrictions or the time that such procedures would involve. In addition, the summary report notes that the appraiser was instructed to value the property as 78 separate parcels, ranging in size from seven to 549 acres in size. The appraiser was further directed to determine value under the assumption that each parcel would be marketed individually, without competition from the other parcels being appraised. Finally, the appraiser assumed that WPSC would be retaining all lands, subject to public access easements, within a 75-foot strip of the high water mark for all waterfront parcels. During negotiations between DNR and WPSC, it was determined that these strips would be transferred to DNR, along with submerged lands. The appraiser was not requested to provide a revised value estimate to account for this adjustment, however the appraisal notes that such a restriction would have a minimal impact on property value.

The appraisal commissioned by WPSC estimated a total marketing time for the parcels between six months and two years, based on times of sale of vacant forested lots in northern Wisconsin and the Upper Peninsula of Michigan. Highest and best use was determined to be recreation, large-lot residential, or residential development, providing opportunities for private fishing, hunting, canoeing, and hiking. Specific highest and best use would vary by location and size of the individual tract. The appraiser also used the sales comparison approach to determine property value. The appraiser selected 51 comparable sales, with parcels ranging from 12 to 300 acres in size with varying access, amenities, locations, forest cover, and water frontage. Each parcel was compared to the four sales considered most comparable from these 51, and after adjustments were made to account for differences, a determination of per acre property value was reached. Using this technique and the previously mentioned assumptions, the appraiser valued the 78 individual parcels at a combined total of \$40,427,300. However, the appraisal does not address the estimated value of the entire property as a single sale.

WPSC argues that the value of the property greatly exceeds the DNR appraisal due to its forest cover, prime water frontage and the high-demand for recreational and residential properties with such amenities in northern Wisconsin. They believe the property could be sold for perhaps \$60 to \$70 million if development were not restricted by the FERC license. WPSC officials further believe that a concerted effort would result in a relatively rapid release from the FERC restrictions since the property is not critical to actual hydropower production. Once unencumbered from the hydropower license they argue the value of the property would increase dramatically. The DNR appraisal assumes that release from FERC restrictions could be accomplished, but that it would take at least two years to complete the process. Proponents of this view also argue that DNR purchase would ensure permanent protection of the property. Still others believe that WPSC would be unlikely to obtain a FERC license release that would allow private development if state and local officials oppose such a use. They argue the property would likely not be subject to development pressure until at least 2037 when the license would be up for renewal, and even then private development could perhaps be restricted through state and local input to the federal re-licensing process. Under this view the current value of the property with the FERC restrictions in place may be significantly lower than the \$24.2 million DNR estimate. Further, concerns have been raised that a state purchase of WPSC lands could set a precedent for other state utilities to also seek release of similarly restricted lands.

As of December 14, there is no legally binding agreement between DNR and WPSC in regards to the sale of the property. However, in a December 3, 2001, letter signed by Larry Weyers (Chairman and Chief Executive Officer of WPSC) and Darrell Bazzell (DNR Secretary), the "good faith intent of the parties" is outlined. Under the terms of the letter, the purchase would take place in four stages. The first transaction (scheduled to take place before December 31, 2001) would transfer specified parcels believed to total approximately 5,701 acres (1,720 on Caldron Falls, 678 on High Falls, 570 on Johnson Falls, 1,915 on Sandstone Rapids, and 818 on Potato Rapids) for \$13.5 million (or \$2,368 per acre). This sale would include over half of WPSC's holdings on Caldron Falls, including 500 acres adjacent to lands previously authorized for purchase by the State for the Centennial State Park. It would also include all of DNR's intended purchase on Sandstone Rapids, all but six acres of DNR's intended purchase on Potato Rapids, over half of WPSC's holdings on Johnson Falls, and limited scattered holdings on High Falls. If the conveyance does not occur prior to December 31, 2001, the transfer of property would be deferred until 2003. However, a 5% annual interest rate would be applied to the \$13.5 million total beginning on January 1, 2002, until the transaction closed. It should be noted that annual land values have generally been increasing at a greater than 5% rate.

If the initial transaction is completed, DNR would be granted two additional options. The first option would allow DNR to purchase the remaining 534 acres on Caldron Falls for \$6.5 million. (WPSC would retain 104 acres on Caldron Falls for the purpose of continued hydroelectric operations, and would donate the remaining 656 acres on Caldron Falls upon the completion of the second option.) This option would require DNR to pay \$12,172 per acre for the 534 acres. The appraisal requested by DNR estimates the value of this parcel to be approximately \$1.6 million, or \$3,024 per acre. The option must be exercised between January 1 and March 31, 2003, with a closing of the purchase to occur no later than December 31, 2003, unless otherwise delayed by mutual agreement. An annual interest rate of 5% would apply to the \$6.5 million purchase price from January 1, 2002 until the closing date.

The second option would allow DNR to purchase 151 acres on the High Falls Flowage for \$5 million. The option may be exercised between January 1 and March 31, 2004, with a closing of the purchase to occur no later than December 31, 2004, unless otherwise delayed by mutual agreement. An annual interest rate of 5% would apply to the \$5 million purchase price from January 1, 2002 until the closing date. This second option may only be exercised if DNR exercises and closes the previous option. This second option would require DNR to pay \$33,113 per acre for the 151 acres. The appraisal requested by DNR estimates the value of this parcel to be approximately \$474,000, or \$3,139 per acre.

Finally, upon the closing of the first and second options, WPSC would donate to the state the remaining 656 acres on Caldron Falls, 1,895 acres on High Falls, 290 acres on Johnson Falls, and six acres each on Sandstone and Potato Rapids. If all four transactions are completed as envisioned, DNR would own approximately 9,239 acres at an average cost of \$2,706 per acre (\$25 million). Interest costs are estimated to total approximately \$850,000 over the term of the agreement, and the Department's portion of closing costs (including title insurance and 20% of the transfer tax) may

approach \$50,000. No costs were incurred for the appraisals, as existing DNR staff completed one and WPSC contracted with a private appraiser for the other. WPSC and DNR officials have indicated that the most developable parcels with the best water frontage tend to be in the donation package.

WPSC would retain the following acres for hydroelectric operations: 104 acres on Caldron Falls, 65 acres on High Falls, 58 acres on Johnson Falls, 89 acres on Sandstone Rapids, and 75 acres on Potato Rapids. In addition, WPSC would retain 383 acres of land (165 acres on High Falls, 70 acres on Johnson Falls, and 148 acres on Sandstone Rapids) for development purposes. Any development proposed for these properties would be subject to easement restrictions agreed upon by DNR and WPSC. While no agreement has been reached, an acceptable easement may prohibit structures within 100 feet of the shoreline, require a minimum lot size or minimum lake frontage per parcel, restrict development to single-family residences, restrict timber harvest, limit color selection of buildings on the property to earth tones, and restrict the height of developments. All parcels transferred to DNR would remain subject to the flowage rights required by WPSC's FERC license, as well as all utility and access easements for WPSC's existing hydroelectric, transmission, or distribution facilities.

Upon the closing of the initial transaction, WPSC would seek FERC authorization to modify its existing license boundaries consistent with purchase agreement. DNR would be expected to cooperate with WPSC in providing information and filing forms as necessary. However, under the terms of the letter, if FERC does not authorize the modification of the existing license boundaries consistent with the agreement (including WPSC's request to withdraw 383 acres for development) by November 30, 2002, WPSC would have the option to rescind both options and withhold the final donation of property. It is unclear whether FERC could act within that timeframe, particularly if opposition to the release by a third party is encountered. In addition, WPSC would retain timber rights to the property until such time that it was transferred to DNR. Currently, several timber harvests of varying size and scope are scheduled to be executed on the property during the winter of 2001-02. However, the tentative agreement states that all timber sales be consistent with both WPSC's timber management practices and DNR management policies.

Given the tentative nature of the current deal between DNR and WPSC the Committee could consider several alternatives. The current purchase could be postponed and DNR directed to resubmit the proposal when an enforceable purchase contract has been entered. Alternatively, the Committee could approve the \$13.5 million purchase for 5,701 acres (not to exceed \$2,400 per acre) and require DNR to submit the 2003 and 2004 purchases to the Committee for review once the final details of the transaction are known.

Currently, with the approval of the Natural Resources Board, the Joint Committee on Finance and the Governor, the Department can obligate up to the entire allocation under the land acquisition subprogram for large or uniquely valuable acquisitions. However, when this option is exercised, DNR is required to re-sell a portion of the acquisition. In this case, DNR has indicated that the Department would most likely resell a portion of forested upland to the Federal government as an

addition to the Nicolet National Forest. For any sale of excess property that occurs within three years of the date of purchase utilizing the "borrowing ahead" option, proceeds from the sale are credited to the land acquisition subprogram, allowing DNR to utilize that bonding authority for future purposes. While the DNR Board annually determines stewardship allocations, the following table outlines expenditure authority that could be expected to be available for stewardship land acquisition if the request were approved.

Annual Stewardship Funding Allocations
(\$ in millions)

<u>Land Acquisition Allotments</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
General Land Acquisition	\$18.95	\$21.05	\$22.50	\$27.95	\$35.50
Acquisition by Non-Profit Conservation Organizations	7.25	7.25	8.00	8.75	9.50
Great Addition Adjustment	8.30	8.30	6.20	0.00	0.00
Peshtigo River State Forest Adjustment	<u>0.00</u>	<u>8.40</u>	<u>8.30</u>	<u>8.30</u>	<u>0.00</u>
	\$34.50	\$45.00	\$45.00	\$45.00	\$45.00

The allotments are estimated based on current DNR allocation practices. The adjustments for the Great Addition and the Peshtigo River State Forest indicate where DNR would likely reduce its other allotments to compensate for bonding authority that was "borrowed" from future years for large purchases. The adjustment for the Great Addition allocation in 2003-04 includes anticipated revenues of \$2.2 million from the resale of excess property to municipalities, the Board of Commissioners of Public Lands, the United States Forest Service, and tribal governments.

Staffing and Operations Request

In conjunction with this purchase, DNR requests \$185,900 SEG in 2001-02 and \$424,900 SEG in 2002-03 with 2.0 positions from the forestry account of the conservation fund for the management and operation of the properties associated with this transaction.

On November 16, 2001, the Natural Resources Board voted unanimously to approve the recommendation to establish the Peshtigo River Shoreline Project with an acreage goal of 12,890.5 acres; to approve the purchase of 9,239 acres in fee title and a scenic easement on 383 acres at a price of \$25 million and acceptance of title to submerged lands; and to authorize the Department to borrow ahead from stewardship in the amount of \$13.5 million. Further, the motion included a directive for the Department to begin the master planning process for the property, to consider adding acreage from this purchase to the Centennial State Park on Caldron Falls, and to name the project the Peshtigo River State Forest, subject to the local planning committee's review.

State forests are sustainably managed to provide a full range of benefits, including soil protection, public hunting, protection of water quality, production of recurring forest products, outdoor recreation, native biological diversity, aquatic and terrestrial wildlife, and aesthetics. The

Department operates state forests under two separate administrative structures. The northern state forests (15 properties) are operated by DNR forestry staff in a manner that tends to focus on the enhancement of their timber resources. Seven southern forest properties are operated by state parks personnel and are managed in a manner that tends to give priority to their recreational value.

The request would provide two positions to manage the property (once acquired by the state) and supervise the development of recreational resources. A forester/natural resources property supervisor would be responsible for forest management on the property. In addition, the position would be responsible for personnel, public relations, and budgetary issues. A ranger/assistant property manager would oversee road repair and maintenance, facility development, boundary determination and control, access management and boat landing maintenance. In addition, the ranger would be responsible for public safety and protection on the property, and is expected to possess law enforcement credentials. Additional responsibilities would include the oversight of LTEs, contractors or volunteers working on the development of recreational resources, including trail signing and grooming, campsite permits and maintenance, and managing cooperative agreements with snowmobile clubs for trail maintenance. The forestry staff would also provide coordination of endangered resources, fisheries, and wildlife management projects that may be associated with the parcel.

In addition to the permanent positions, DNR is requesting funds for 3,000 limited-term employee hours. These funds would be used to employ a ranger and two laborers as needed. This support would be used for forest productivity and inventory work, winter and summer recreation maintenance, visitor contact and facility development and repair. Supplies and services funding would cover costs associated with travel, radio maintenance, training, office supplies, computers (including software and maintenance), forestry field equipment, law enforcement equipment, portable radios, and office furniture. Additional supplies requested for property maintenance would include fuel, equipment maintenance, tools, gates, signs, a snowmobile equipped with trail grooming equipment, ATV, trail mower, trailer, a boat, and two trucks.

The Department is required to develop a master plan for each state forest, detailing management goals for the property based on both surveys and inventories of the property. In addition, public opinion is solicited to ensure that interested parties have input in the management of the forest. Interest and input can be generated through public meetings, mailings, press releases, and websites. Anticipated expenses for this process include funds for endangered resources inventory, mapping, surveys, public meetings, mail and postage, printing of brochures and newsletters, web site maintenance, and an additional 1,040 hours of LTE support. The majority of these expenses (\$182,000) would occur in the second year of the biennium.

The Department's request would fund the two positions beginning in January, 2002. Given the time required to advertise, interview, and hire the positions, it seems unlikely that they could be filled earlier than April. The request could be approved for three months of funding in the first year rather than six. In addition, the funding requested for the two positions is higher than the starting salary for the classifications. The Department indicates that the increase over the minimum authorized would attract better-quality applicants to apply for the position. Finally, \$10,000

annually per position is requested for supplies (\$1,200 to \$5,000 per position is more typical). If the starting salary was approved (rather than the higher rate requested by the Department), and an adjustment was made to fund the positions with \$5,000 each year for supplies beginning in April, a reduction of \$55,100 in 2001-02 and \$21,800 in 2002-03 for the requested amount could be realized. The following table shows the funding provided under this alternative.

	<u>2001-02</u>	<u>2002-03</u>
1.0 Forest Supervisor	\$13,500	\$54,100
1.0 Forest Ranger	10,200	40,600
Staff Supplies	2,500	10,000
LTEs	8,100	32,400
Equipment	64,000	44,000
Master Plan	22,500	182,000
Maintenance and operations	<u>10,000</u>	<u>40,000</u>
Total	\$130,800	\$403,100

A portion of the funding requested would be used to acquire permanent equipment for use at the property as well as expenses associated with the master planning process. It may be argued that this portion of the request, if approved, should be provided on a one-time basis. Funds totaling \$86,500 in the first year and \$226,000 in the second year would be used for the purchase of computers, office equipment, radios, hand tools, a snowmobile, an ATV, a boat, two vehicles, and costs associated with the master planning process. While it is possible that the master planning process would not be concluded this biennium, if any additional allocation is required, it could be requested in the 2003-05 budget.

In a memorandum dated November 1, 2001, DOA Secretary George Lightbourn notified state agency heads of the enactment of a hiring freeze affecting all state executive branch agencies. Exceptions would be made for the University of Wisconsin System and for positions directly protecting public health and safety (including prosecutor positions in district attorney offices). To the extent that providing a DNR presence on the property would protect public health and safety by providing supervision of resource use and public recreation activities, it may be argued that the request for a ranger/assistant property manager meets the criteria for exemption from the hiring freeze. Alternatively, DNR could choose to reallocate an existing forest ranger or forestry supervisor to fill this need until the hiring freeze is lifted. DOA indicates that if the Committee were to approve DNR's request, the Department would then be required to present justification to DOA for exemption from the hiring freeze in order to fill the positions. Requests are considered on a case-by-case basis.

It should also be noted that the property proposed for purchase surrounds the 2,200 acre Tommy G. Thompson (Caldron Falls) Centennial State Park. Under 2001 Act 16 (the 2001-03 biennial budget), funding for 2.0 staff (a park manager and a naturalist) as well as operations

funding of \$70,000 in 2001-02 and \$30,000 in 2002-03 is provided. Cooperative management efforts could allow staff from the state park to assist with management efforts at the larger property. Under the request, approximately 5.5 FTE would be available to staff the combined 11,400-acre property (two parks staff, two permanent forestry staff, and approximately 1.5 FTE of forestry limited term employees). It should be noted that while the positions provided for the management of the state park were funded beginning as early as May, 2001, DNR indicates that there are currently no staff on duty at the property.

It may be argued that a request for staff to manage a property that the State does not yet own may be premature. DNR could submit a request in the 2003-05 biennial budget or at a future meeting of the Joint Committee on Finance after the Committee has had an opportunity to review the purchase of property in question and, if approved, DNR has executed the actual purchase of the property. It should be noted that the current purchase is expected in three phases through 2004.

Master planning and operational funding for major state land purchases (such as the Chippewa, Turtle-Flambeau and Willow Flowages and the Great Addition) have generally either been absorbed by DNR or requested in budget legislation (Act 16 provides 1.0 forester for management of the Willow Flowage purchased in 1997 and expanded in 1999). DNR officials argue that the increasing number of large new purchases combined with the recent and proposed budget reductions that state agencies face make immediate funding of this property necessary. Proponents point to the two staff (one for each park) originally authorized for the Centennial State Parks under s. 13.10 as precedent for this request. One alternative would be to provide 1.0 position, start-up equipment and limited operational costs to begin operations at the property, with permanent ongoing funding levels reviewed in the 2003-05 budget.

It should also be noted that 2002-03 operational funding for the DNR Division of Forestry was item vetoed by the Governor as part of the Department of Forestry veto in Act 16. Therefore, DNR must seek Legislative approval to restore DNR forestry funding. Another alternative would be to provide funding in 2001-02 only, with 2002-03 funding reviewed as part of the legislation restoring forestry base funding for 2002-03.

ALTERNATIVES

A. Expenditure Authority to Purchase Land

1. Approve the DNR request to expend up to \$25 million, not to exceed \$2,706 per acre, from the land acquisition subprogram of the Warren Knowles-Gaylord Nelson Stewardship 2000 program to purchase 9,239 acres of land in fee and easements on an additional 383 acres from Wisconsin Public Service Corporation for the proposed Peshtigo River State Forest in Marinette and Oconoto Counties. The transaction would also convey 3,268.5 acres of submerged land to the state. In addition, approve the Department's request to borrow ahead \$13.5 million in stewardship bonding authority for the first installment of the purchase to take place in December, 2001.

2. Approve the DNR request to expend up to \$13.5 million, not to exceed \$2,400 per acre, from the land acquisition subprogram to purchase 5,701 acres of land from Wisconsin Public Service Corporation. In addition, approve the Department's request to borrow ahead \$13.5 million in stewardship bonding authority for the purchase. (This would allow DNR to complete the first phase of the current agreement. The Department would be required to request additional expenditure authority for subsequent purchase options at a future time.)

3. In addition to Alternative A1 or A2, provide up to \$900,000 for interest and closing costs associated with the purchase.

4. Postpone a decision on the request until such time that DNR secures a legally binding agreement regarding the purchase of properties from WPSC.

5. Deny the request.

B. Staffing and Operations Request

1. Provide \$185,900 SEG in 2001-02 and \$424,900 SEG in 2002-03 for 2.0 positions from the forestry account of the conservation fund for the management and operation of the Peshtigo River State Forest.

2. Provide \$130,800 SEG in 2001-02 and \$403,100 SEG in 2002-03 (including \$226,000 on a one-time basis) for 2.0 positions from the forestry account of the conservation fund. (This would reflect a revised cost estimate for the positions, funding each at starting salary level and for 3 months in the first fiscal year, with adjusted allotments for supplies and services.)

3. Provide one or more of the following amounts from the forestry account of the conservation fund for operations of the Peshtigo River State Forest.

	<u>2001-02</u>	<u>2002-03</u>
a. 1.0 Forest Supervisor	\$14,800	\$59,100
b. 1.0 Forest Ranger	11,500	45,600
c. LTEs	8,100	32,400
d. Equipment	64,000	44,000 (one-time)
e. Master Plan	22,500	182,000 (one-time)
f. Maintenance and operations	10,000	40,000

4. Provide one or more of the following amounts in 2001-02 from the forestry account. (Funding in the second year of the biennium could be addressed with a general Division of Forestry funding proposal.)

	<u>2001-02</u>
a. 1.0 Forest Supervisor	\$14,800
b. 1.0 Forest Ranger	11,500
c. LTEs	8,100
d. Equipment	64,000
e. Master Plan	22,500
f. Maintenance and operations	10,000

5. Deny the request.

Prepared by: Rebecca Hotynski

MO# B2 B/C

GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
DUFF	<input checked="" type="radio"/>	N	A
WARD	<input checked="" type="radio"/>	N	A
HUEBSCH	<input checked="" type="radio"/>	N	A
HUBER	<input checked="" type="radio"/>	N	A
COGGS	<input checked="" type="radio"/>	N	A

MO# A1+3 B/B

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Baum

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ROSENZWEIG	<input checked="" type="radio"/>	N	A

BW

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PLACHE	<input checked="" type="radio"/>	N	A
WIRCH	<input checked="" type="radio"/>	N	A
DARLING	<input checked="" type="radio"/>	N	A
ROSENZWEIG	<input checked="" type="radio"/>	N	A

Fitz

AYE 13 NO 3 ABS

AYE 16 NO 0 ABS

NATURAL RESOURCES

Peshtigo River Stewardship Purchase
Agenda Item IX

Motion:

Move to direct DNR to include within the provisions of the master plan for the property a long-term lease, charging rents not to exceed current levels, with Marinette County to allow for continued county operation of a 53-acre parcel on High Falls flowage for park and campground purposes.

MO# Gard

GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
DUFF	<input checked="" type="radio"/>	N	A
WARD	<input checked="" type="radio"/>	N	A
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DECKER	<input checked="" type="radio"/>	N	A
MOORE	<input checked="" type="radio"/>	N	A
<i>Ba</i> CHIBIENSKI	<input checked="" type="radio"/>	N	A
PLACHE	<input checked="" type="radio"/>	N	A
WIRCH	<input checked="" type="radio"/>	N	A
DARLING	<input checked="" type="radio"/>	N	A
<i>Fitz</i> ROSENZWEIG	<input checked="" type="radio"/>	N	A

AYE 16 NO 0 ABS

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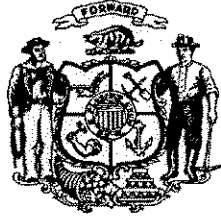


END

THE STATE OF WISCONSIN

SENATE CHAIR
BRIAN BURKE

317-E Capitol
P.O. Box 7882
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Phone: (608) 266-8535



ASSEMBLY CHAIR
JOHN GARD

308-E Capitol
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JOINT COMMITTEE ON FINANCE

December 17, 2001

Secretary Phyllis Dubé
Department of Health and Family Services
1 West Wilson Street
Madison, Wisconsin 53703

Dear Secretary Dubé:

We are writing to inform you that the Joint Committee on Finance has reviewed your plan, received November 29, 2001, for the distribution of increased funding for outpatient hospital services.

The plan was submitted for 14-day passive review and approval by the Joint Finance Committee as required by provisions of 2001 Wisconsin Act 16.

No objections have been made to the plan. Therefore, the plan is approved.

Sincerely,

Handwritten signature of Brian Burke in black ink.

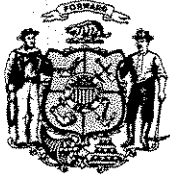
BRIAN BURKE
Senate Chair

Handwritten signature of John G. Gard in black ink.

JOHN G. GARD
Assembly Chair

BB:JG:dh

cc: Members, Joint Committee on Finance
Robert Lang, Legislative Fiscal Bureau
Vicky LaBelle, Department of Administration



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

December 6, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Funding for Rate Increases for Outpatient Hospital Services under Medical Assistance

2001 Wisconsin Act 16 (the 2001-03 biennial budget act) provided \$12,729,300 (\$5,250,800 SEG and \$7,478,500 FED) in 2001-02 and \$13,513,400 (\$5,607,700 SEG and \$7,905,700 FED) in 2002-03 to support costs resulting from an increase in reimbursement rates paid for outpatient hospital services provided under medical assistance (MA) and BadgerCare. Segregated funding is available from the MA trust fund created in the act. Further, Act 16 requires the Department of Health and Family Services (DHFS) to allocate a portion of this funding to increase payments to health maintenance organizations (HMOs) to ensure that the change in the discount for HMO payments does not increase by more than \$2.5 million annually in calendar years 2002 and 2003. DHFS is required to submit a proposal to the Joint Committee on Finance within 90 days of the act's general effective date (September 1, 2001) that identifies how DHFS would allocate the funding provided in the act between hospitals and HMOs. DHFS is prohibited from implementing the proposal unless the Committee approves the proposal or an alternative proposal under a 14-day passive review.

On November 29, 2001, DHFS submitted its plan to the Co-chairs to allocate the funding provided in Act 16 for outpatient hospital service reimbursement rates between hospital providers and HMOs. This memorandum describes the plan DHFS submitted for the Committee's review.

Plan Description

Under the Department's plan, a total of \$7,183,000 (all funds) in 2001-02 and \$7,420,600 (all funds) in 2002-03 would be distributed to hospitals to provide an overall 12% increase in outpatient hospital service reimbursement rates. This would not be an across-the-board rate increase. Rather, the rate increases would be targeted to those hospitals with the lowest reimbursements as a percentage of costs.

Under the plan, the remainder of funding, \$3,761,400 (all funds) in 2001-02 and \$7,877,700 (all funds) in 2002-03, would be distributed to HMOs to provide a 12% increase in the portion of HMO capitation payments that represents payment for outpatient hospital services.

Under the Department's plan, the value of the HMO discount for MA and BadgerCare recipients would total approximately \$40.9 million in calendar year 2002 and approximately \$44.6 million in calendar year 2003, according to an analysis prepared by Milliman, USA, an actuarial firm under contract with DHFS. This represents an increase in the HMO discount of approximately \$640,000 in calendar year 2002 and \$700,000 in calendar year 2003, or approximately 1.6%. The HMO discount represents the difference between what HMOs are paid under MA and BadgerCare and the cost of providing the same level of service on a fee-for-service basis.

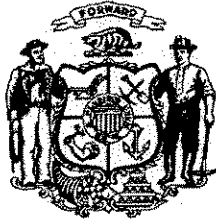
The Co-chairs have requested members to notify them by Friday, December 14, 2001, if they wish to meet formally to discuss the plan.

BL/RC/bh

THE STATE OF WISCONSIN

SENATE CHAIR
BRIAN BURKE

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative John Gard
Co-Chairs, Joint Committee on Finance

Date: November 30, 2001

Re: Medicaid and BadgerCare Funds

Attached is a copy of a letter, received November 29, 2001, from the Secretary of the Department of Health and Family Services, which outlines a plan for the distribution of increased funding for outpatient hospital services.

The request is submitted for 14-day passive review and approval by the Joint Committee on Finance as required by provisions of 2001 Wisconsin Act 16.

Please review the plan and notify **Senator Burke** or **Representative Gard**, no later than **Friday, December 14, 2001**, if you have any concerns about the plan or if you would like to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

BB/JG/js



State of Wisconsin
Department of Health and Family Services

Scott McCallum, Governor
Phyllis J. Dubé, Secretary

November 29, 2001

The Honorable Brian Burke
Senate Co-Chair, Joint Committee on Finance
317 East, State Capitol
Madison, WI 53707-7882

The Honorable John Gard
Assembly Co-Chair, Joint Committee on Finance
308 East, State Capitol
Madison, WI 53708-8952

Dear Senator Burke and Representative Gard:

Provisions of 2001 Wisconsin Act 16 direct the Department of Health and Family Services to submit a plan for 14-day passive review to the Joint Committee on Finance to distribute Medicaid and BadgerCare funds for outpatient hospital services provided through fee-for-service and through managed care. In particular, the Act directs the Department to distribute increased funding for outpatient hospital services to hospitals and to health maintenance organizations (HMOs) that provide outpatient hospital services through contract in a manner that does not increase the HMO discount by more than \$2.5 million. The plan must be submitted within 90 days of the enactment of Act 16, or by November 30, 2001.

The Department's plan would provide a 12 percent increase to outpatient hospital reimbursement and a 12 percent increase to the outpatient hospital portion of the monthly HMO capitation payment. In the 2001-03 biennium, the increase in fee-for-service payments to outpatient hospitals under the plan would be \$14.6 million, while the increase to HMO capitation payments would be \$11.6 million. Total payments for hospitals and HMOs would be within the \$26.2 million appropriated for increased payments to providers of hospital outpatient services. The Department's plan would result in a calendar year increase in the HMO discount of \$640,000 in 2002 and \$700,000 in 2003, thereby raising the overall discount for HMOs that provide services for Medicaid and BadgerCare recipients by 0.1% from 7.9% to 8.0%.

The Department examined several options for the distribution of increased funding for outpatient hospital services. The option selected addresses the objectives of maximizing outpatient hospital payments while maintaining the ability of HMOs to contract with hospitals for outpatient hospital services provided to Medicaid and BadgerCare recipients in managed care.

The Department presented the plan to the HMOs, the Wisconsin Association of Health Plans, and the Wisconsin Health and Hospital Association on November 8, 2001. We know of no objection to the plan by any of the affected parties.

Thank you for your consideration of the Department's plan.

Sincerely,

Phyllis J. Dubé
Secretary

Wisconsin.gov

Cc: Bob Lang
Charlie Morgan
David Schmiedicke
Jennifer Kraus