



## Legislative Fiscal Bureau

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April 18, 2023

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Pelican River Forest Acquisition -- Agenda Item III

### **REQUEST**

On November 1, 2022, the Department of Natural Resources (DNR) requested approval under s. 23.0917(6m) of the statutes to acquire a conservation easement on 56,259 acres for \$15,512,000. DNR requested to fund the purchase using \$4,028,000 from the land acquisition subprogram of the Warren Knowles-Gaylord Nelson Stewardship program. Additional funds would come from federal matching grants and gifts and donations. The project, known as the Pelican River Forest, is located in the Towns of Monico, Pelican, Piehl, Pine Lake, Schoepke, Stella, Sugar Camp, and Three Lakes in Oneida County; the Town of Crandon, Forest County; and the Town of Elcho, Langlade County. Notice of an objection was made on November 21, 2022.

### **BACKGROUND**

#### **Land Acquisition Subprogram**

The land acquisition subprogram allows DNR to acquire land for any of the purposes specified under statute, such as forests, parks, fisheries or wildlife areas, and natural areas. Under current law, DNR may obligate up to \$6 million annually on Department acquisitions, of which \$1 million is reserved for Ice Age Trail acquisitions. Additionally, of the \$6 million allocated for Department acquisitions, DNR may obligate no more than \$2 million for the purchase of land in fee simple; the remaining funding must be used for purchases of easements.

#### **Federal Forest Legacy Program**

DNR would partially finance the Pelican River Forest easement through a federal Forest Legacy grant. The Forest Legacy Program (FLP) is a federal program to conserve private forestland. The program is administered by the U.S. Forest Service (USFS) and finances the purchase of

forestland through either fee title or conservation easements. Funding is appropriated by Congress from the federal Land and Water Conservation Fund (LAWCON). The Inflation Reduction Act of 2022 appropriated \$700 million for FLP that may be obligated through September 30, 2031. Under FLP, USFS may purchase easements or land in fee title directly, or make grants available to states to do the same. In Wisconsin, all FLP funding is provided through grants to DNR.

FLP funding is provided to states in the form of competitive matching grants. USFS may award up to 75% of the cost of eligible FLP projects, up to \$20 million per state. States must contribute the remaining 25%, either through public sources, donations, or land to be enrolled in the FLP. Each year, USFS solicits project proposals from states. States may submit several projects, ranked in priority order to USFS. USFS then ranks all state project requests and awards available funding. As private forests within designated forest legacy areas become available for sale, DNR seeks to acquire easements on those properties that meet both federal and state conservation goals.

Federal law establishes three priorities for FLP acquisitions: the conservation of working forestlands, protection of forests from ecological and development threats, and the enhancement of public benefits of forests, including recreational, commercial and environmental benefits. The state's 2020 Forest Action Plan establishes additional goals for Wisconsin's FLP program, including preserving and enhancing forest diversity and connectivity, as well as developing Wisconsin's forest products industry. Both the federal and state FLP prioritize conserving working forestlands to prevent forest fragmentation. In establishing the Northern Forest Legacy Area, which covers most of the northern third of the state, the state's forest legacy assessment of need noted the high proportion of second homes and vacation properties in the region. The assessment noted that the region faces development pressures as properties are subdivided for vacation home construction.

### **Pelican River Forest**

In October 2021, the Conservation Fund, a land trust that seeks to purchase conservation lands, purchased approximately 69,600 acres of industrial forestland in Oneida, Forest, and Langlade Counties from the Forestland Group, a timber investment management company. The Conservation Fund subsequently sold a perpetual conservation easement on 12,497 acres to DNR for \$4,675,600. The easement was purchased with funding from the Knowles-Nelson Stewardship program. The Joint Committee on Finance approved the purchase under passive review on July 28, 2021.

The request before the Committee would approve the purchase of an easement on an additional 56,259 acres from the Conservation Fund, known as the Pelican River Forest. (The selling party, Pelican River Forest, LLC, is registered to the Conservation Fund.) The property consists of several large blocks of forestland east of Rhinelander on U.S. Highway 8. Approximately 47,700 acres, or 84% of the total property area, are forested. The remaining 16% of the property consists of streams, wetlands and internal forest roads. The majority of the forest cover consists of aspen and hardwoods.

A timber inventory conducted by a previous property owner estimates that the property contains approximately 107,560 MBF (thousand board feet) of timber. In addition, the property's pine and conifer plantations contain an estimated 1.7 million tons of pulpwood. After reviewing the

inventory data and conducting a site visit, one appraiser estimated that the property contained an average of 29 tons of pulpwood and 1.9 MBF per acre. Based on recent stumpage prices for the particular species found on the property, appraisers estimated that the property contained between \$39.8 million and \$47.0 million in timber, or approximately \$702 to \$827 per acre.

DNR reports all parcels within the property are enrolled in the managed forest law (MFL) program. The program allows property owners to pay a reduced property tax rate in exchange for managing the property under a DNR-approved sustainable forestry plan. Through MFL, the property is open to public recreation, including hunting, fishing, and motorized recreation. In lieu of taxes, the property owner pays 72¢ or \$1.90 per acre each year, depending on the date of enrollment. An appraisal reports that the property's acreage share payment in 2020 totaled \$50,948.

## **ANALYSIS**

DNR would purchase a conservation easement on 56,259 acres of the Pelican River Forest. The easement would conserve the property in an undeveloped state and limit subdivision of the property. The easement would also guarantee public access to the property for hunting, fishing, trapping, and motorized recreation. While the property is currently open to public outdoor recreation through the MFL program, the property owner could elect to close the property to public access, in exchange for a higher acreage share payment of \$1.68 or \$9.49 per acre, depending on the date of MFL enrollment. Additionally, the MFL program does not prevent property subdivision or subsequent land sales. The Conservation Fund would continue to hold the title to the land and would be responsible for making annual acreage share payments on the property. In addition, the Conservation Fund would be responsible for property management and would collect revenue from timber sales on the property.

If approved, DNR would purchase the easement for \$15,512,000. Of this, \$10,884,000 (70%) would be funded through a FLP grant. Additionally, DNR received a \$600,000 donation from the National Fish and Wildlife Foundation for the easement purchase. The remaining \$4,028,000 would come from the stewardship program, with \$3,000,000 allocated from the Department's 2022-23 annual allotment for land acquisition and \$1,028,000 allocated from the Department's 2023-24 allotment. If the Committee approves the request, DNR would encumber \$3 million from the 2022-23 land acquisition allotment. The encumbered monies, plus the remaining \$1,028,000 and an estimated \$67,900 in closing costs, would be expended in early 2023-24, when the property sale is closed. The table below illustrates funding sources for the purchase.

## Pelican River Forest Funding Sources

Federal FLP Grant	\$10,884,000
National Fish and Wildlife Foundation Donation	600,000
Stewardship	
2022-23 Allotment	\$3,000,000
2023-24 Allotment	1,028,000
Closing Costs and Appraisal Fees (2023-24)	<u>67,900</u>
Stewardship Subtotal	\$4,095,900
Total	\$15,579,900

The Conservation Fund has agreed to place \$1,000,000 from the purchase price into an endowment for road maintenance. DNR has negotiated the establishment of similar endowments in recent easement purchases to ensure that internal roads are maintained to allow access to hunting and fishing areas and for motorized recreation. The endowment would support the maintenance of 50 miles of internal roads.

For any land purchase with an estimated value greater than \$350,000, DNR must receive two appraisals of the property's fair market value. Appraisals of the Pelican River Forest estimated the value of the land using both a sales comparison approach, in which the property is compared to recently sold properties in the region with similar sizes, improvements, and land and water features, and an income approach, in which the appraiser estimates the net present value of the timber that could be sold from the property within the near future, less expenses related to owning and managing the land. The value of the property was estimated in its current form, unencumbered by the easement, and with the easement attached. The difference between the "before-easement" and "after-easement" values of the property was used to estimate the value of the easement.

Appraisers reported that unencumbered properties of similar size, forest cover, topography, location and contiguity sold for between \$571 and \$1,350 per acre. After adjustments were made for the Pelican River Forest's proximity to highways, forest cover, and extensive internal road network, appraisers estimated that the property, if sold without an easement, would likely be worth \$750 to \$800 per acre, or \$42.8 million to \$45.5 million.

The Pelican River Forest has been enrolled in the MFL program and has been managed as an industrial forest. Additionally, given the zoning allowances for the property, appraisers determined the highest and best use of the property to be industrial forest. Appraisers estimated the present value of the property's timber resources using the projected timber harvest revenues, costs of land management, post-harvest land sales, and other streams of costs and revenues. Using this discounted income approach, appraisers estimated the present value of the property's future streams of net revenues to be between \$691 and \$785 per acre, or \$39.4 million to \$43.2 million. After reconciling the two methods, appraisers estimated the fair market value of the Pelican River Forest, unencumbered by the easement, to be between \$40.7 million and \$44.7 million.

The easement would restrict future subdivision and development of the land, limiting the

potential market value of the property if it were to be sold in the future. Appraisers reviewed the per-acre prices of forestland sales with similar easements and estimated that large forest properties encumbered by easements had market values of between \$300 and \$704 per acre. After adjusting this range for the characteristics of the Pelican River Forest, appraisers estimated that the easement would reduce the market value of the property by as much as \$570 per acre, to between \$24.4 million and \$30.2 million.

While the Pelican River Forest could continue to be managed by the Conservation Fund or future owners as an industrial forest, the easement would affect the property manager's investment strategy. Typically, timber investment firms will sell off portions of a forest property after harvesting timber. With the easement's restrictions on subdivision, which would be limited to three subdivisions and a minimum of 2,000 acres per instance, a property manager would incur greater land management expenses and would be unable to generate income from selling tracts of immature forest. Since the property is enrolled in MFL, the amount of timber that could be removed from the property would be unaffected by the easement—timber harvests would continue to be controlled by the MFL management plan. However, the property owner could not readily subdivide the forest and sell harvested acreage, which would tend to limit future revenue. Additionally, holding these tracts, rather than reselling them, would incur management and real estate expenses. Appraisers recalculated the net present value of future revenue stream on the property with these assumptions, estimating the fair market value of the property encumbered by the easement to be between \$22.1 million and \$33.6 million.

After reconciling the comparable sales and income appraisals, the fair market value of the Pelican River Forest including the proposed easement was estimated to be between \$23.0 million and \$30.2 million. Therefore, the appraisers estimated that the easement would reduce the market value of the forest by between \$14.5 million and \$17.7 million. DNR typically uses the lower value between appraisals when negotiating land sales. Therefore, the value of the Pelican River Forest easement is estimated to be \$14.5 million. As noted above, the Department would also contribute \$1 million toward a permanent road endowment, which would be used to perform maintenance on the internal road network for recreational users. The \$15,512,000 price of the acquisition includes both the \$14,512,000 estimated fair market value of the easement, as well as the \$1,000,000 value of the road endowment. The Committee could consider approving the DNR request to use \$4,028,000 plus closing costs and appraisals fees from the stewardship program toward the acquisition of the \$14,512,000 easement and establishment of the \$1,000,000 road endowment [Alternative 1].

The road endowment is intended to preserve public access to the forest by providing the funding to maintain 50 miles of internal roads on the property. Appraisals noted that the roads through the forest are passable by logging equipment, pickup trucks, and recreational vehicles. They are seasonally maintained, being plowed as necessary for logging operations. The roads have regularly been re-graded by the land manager to allow logging equipment to pass. The endowment would provide regular, dedicated funding for road maintenance on the property. Additionally, the endowment and responsibility for maintaining the roads for recreational users would continue with the title to the land if the property is sold.

While the endowment would preserve recreational access, it could be argued that the cost of

road repair should be borne by the property owner. Roads would need to be maintained for logging, and income from the property's timber resources could support the cost of road repairs. Under this perspective, the Committee could consider modifying the DNR request to provide \$3,028,000 plus closing costs and transaction fees toward the \$14,512,000 purchase price of the easement [Alternative 2]. Under this alternative, the state, through donations and the stewardship program, would provide 25% of the proposed project cost; the FLP grant would constitute the remaining 75%. However, federal funding could be reduced, at USFS's discretion. If federal funding were reduced, the Department may be required to renegotiate the purchase price with the Conservation Fund. Additionally, without the road endowment, the Conservation Fund may reduce road maintenance activities, performing re-grading only as necessary for logging.

Conservation easements are used by DNR to preserve undeveloped land for ecological benefits, as well as to ensure forestlands continue to produce timber for the state's forest product industries. However, the encumbrance of a conservation easement limits most future uses on a property. Properties cannot be easily subdivided or developed, if at all. Therefore future buyers are typically limited to timber companies, investment companies, and conservation groups. Preserving lands as industrial forest acreage often ensures that a property will be enrolled in MFL, reducing the local property tax base relative to most other uses. Given the impact on future use for the property, the Committee could deny the request [Alternative 3].

## **ALTERNATIVES**

1. Approve the DNR request to provide \$4,028,000 from the land acquisition subprogram of the Knowles-Nelson Stewardship program, including \$3,000,000 from the 2022-23 annual allotment and \$1,028,000 plus transaction costs of \$67,900 from the 2023-24 annual allotment. The funding would be used to finance a portion of the \$14,512,000 purchase price of the Pelican River Forest easement, the establishment of a \$1,000,000 road endowment, plus transaction costs, appraisal fees, and closing costs.

2. Modify the DNR request to provide \$3,028,000 from the land acquisition subprogram of the Knowles-Nelson Stewardship program, including \$3,000,000 from the 2022-23 annual allotment and \$28,000 plus transaction costs of \$67,900 from the 2023-24 annual allotment. The funding would be used to finance a portion of the \$14,512,000 purchase price of the Pelican River plus transaction costs, appraisal fees, and closing costs.

3. Deny the request.

Prepared by: Eric Hepler