

**PILT Report Commissioners' Advisory Group  
March 23, 2012  
Meeting Notes**

**In attendance:**

**Advisory Group Members:**

**County Commissioners:**

Todd Beckel (Lake of the Woods County)  
Bob Fox (Renville County)  
Rich Sve (Lake County)  
Duane Bakke (Fillmore County)

**State Agencies:**

Mike Roelofs (MN Management & Budget)  
Dave Schad (Dept. of Natural Resources)

**Township Representatives:**

Jill Hall (New Solum Township Clerk)  
Kermit McRae (Caledonia Township Supervisor)  
Mike Hoops (Silver Creek Township)

**Other subject matter experts:**

Keith Carlson (Minnesota Inter-County Assn)  
Brian Connors (Itasca County Assessor)  
Gene Merriam  
Ron Nargang

**Technical Workgroup Members:**

Susan Damon (DNR Lands & Minerals Div.)  
John Ongaro (St. Louis County)  
Kent Sulem (Association of MN Townships)

**Facilitators:** Judy Grew and Shelby Peacock (MMB, Management Analysis & Development)

**Announcements and Review of 2.24.12 meeting summary**

Judy Grew welcomed everyone to the third meeting. She went over the meeting minutes from 2.24.12 to fill in any missing information. Revised meeting minutes will be posted on the website, along with all the meeting materials.

<http://www.dnr.state.mn.us/aboutdnr/legislativeinfo/pilt/index.html>

Susan Damon shared some announcements:

- The Department of Revenue is conducting a survey land assessors – the due date on the response is April 6<sup>th</sup>. John Hagen will present the results at the next meeting.

**Action items from 2.24.12 meeting****State-Owned Lands (Kathy A. Lewis, Assistant Director, Division of Lands and Minerals, DNR)**

Kathy gave a PowerPoint presentation on State-owned lands and the distribution of revenue from the lands managed by the DNR. The presentation materials are on the PILT study website (see link on page 1). Note that all of the land types discussed in her presentation receive PILT payments, **except** (1) state-acquired conservation easements and (2) non-conservation lands managed by other agencies (such as Department of Transportation land for roads and bridges, state buildings, the Minnesota Zoo and the campuses of the Minnesota State Colleges and Universities).

**Susan Damon gave a brief overview of Goose management cropland payments.****(Comparison of FY10 payments under Minn. Stat. § 97A.061, subd. 3 with payment for such lands at  $\frac{3}{4}$  of 1% of appraised value)**

A handout showed that there was only a \$5,577 difference in the PILT calculation for Goose Management Cropland payments under their payment under current statute, compared to the payment calculated at  $\frac{3}{4}$  of 1% of appraised value. A reasonable conclusion to draw is that if the Goose Management payment was changed to be like most of the others, it would not make much of a difference in payments.

**Follow-up from 2.24.12 meeting discussion: The rate of payments for specific classes of natural resources lands.**

Judy Grew stated that due to the wealth of information provided in the first meeting we are still running about one meeting behind relative to the initial schedule. At today's meeting we will discuss the rate of payment for specific classes of natural resources lands, and time permitting, will discuss the adequacy of the current funding for payments and the impact of additional land acquisition on the funding. At the last meeting there was a discussion on the history of the PILT rates. Today we will discuss what makes sense for a rate of payment structure moving forward.

Judy asked, do we need this many rates?

- Brian Connors – “No” *\*Everyone nodded in agreement\**

If we don't need this many rates, what are some ideas to reduce the number of rates? What would be the criteria for setting various reimbursement rates?

**Option: Goose Management Cropland structure**

- A suggestion was made to use the Goose Management Croplands structure. It bases the payment on taxes on comparable private owned land (adjacent). (Ad Valorem) (Brian Connors)
- This structure works for Goose Management Croplands because it is Agriculture land. The challenge in adopting it more broadly is when the DNR land is managed differently than the adjacent private land. (Dave Schad)

- For the most part, neighboring land will be pretty similar. In cases where it is not, you could ask for a valuation of other comparable land, such as a wetland. (Brian Connors)
- The Goose Management land is also a small public parcel in the middle of a private large area. Whereas in other areas (such as Lake of the Woods County) there is very small private area in the middle of a large public area. In these cases, there are no/few sales – how do you compare your price? (Todd Beckel)
- What drives land prices is sales and opportunity. If you take opportunity away, you aren't going to have any movement in the numbers. (Todd Beckel)
- If the statistics do not tell me to move the value I leave that values alone. If they tell me to double the value I double it. (Brian Connors)
- The issue is that there is no opportunity to use the land – it is non-developable. Someday it might be, but not in the near future. (Todd Beckel)
- A 1994 report studied the impact on cost to switch to an ad valorem system of payments, and at that time it would cost \$68 million (\$26.1 million for PILT land and \$41.9 million for state-owned shoreline). PILT was \$6.5 million in 1994, and now it is \$24 million. Much of the increase would be due to shoreline values. (Dave Schad)<sup>1</sup>
- There would be several ways to address the potential large increase in PILT if you wanted to go to a single system. For example, you could modify the per acre value for the shoreline. It would be an equalizer. (Brian Connor)
- To clarify, the 1994 study showed that the cost for ad valorem rates would be \$68 million, but without the shoreline it would be \$26.1 million. (Ron Nargang)
- We may be mixing apples and oranges – there may be a significant increase in PILT just by eliminating all the various categories. (Gene Merriam)
- Ron Nargang gave a quick history of how the 1994 report that was being discussed came about, since he was the Deputy Commissioner at the time. He thought that there should be a way to both simplify the system and increase the revenue for local government.

#### **Option: A set rate per acre**

- A set rate per acre was proposed. There will be winners and losers either way with any recommendation – this option would keep things simple. (Todd Beckel)
- **Question:** On the acquired lands, which counties are currently opting for the  $\frac{3}{4}$  of 1% and which counties are going with the \$5.133 (flat rate)? (Gene Merriam)
  - Answer: Beltrami, Roseau, Lake of the Woods and Marshall Counties are at the \$5.133 rate (Todd Beckel)
- Keep in mind what has happened to land values the last few years. The next time land is re-assessed, more counties might go for the \$5.133 rate. (John Ongaro)
- An advantage of the set rate per acre is that the counties do not have to assess the land, although they may need to assess the land for other reasons.

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<sup>1</sup>The report, entitled *Payment In Lieu of Taxes Study: Ad Valorem vs. Current Payments On State-Owned Land*, is on the project website: <http://archive.leg.state.mn.us/docs/pre2003/mandated/950217.pdf>

**Option: Move all into the largest category**

- What category has the greatest percentages of total land holding? If we have 80% in the Acquired Natural Resource Land, why don't we find out a reasonable formula for that and drag the rest of them along? (Ron Nargang)
- Susan Damon did some quick calculating to help the group. After the group did some figuring, they decided to provide a "cheat sheet" next time.

**Other comments:**

- There is a big difference in calculating the value for the county average vs. the value of comparable land for the site. (Gene Merriam)
- If we could find a way to clump Acquired Natural Resources Land, DNR-Administered Other Natural Resources Land and County-Administered Other Natural Resources Land, they are the bulk of the payment, we would have a much simpler system. (Ron Nargang)
- That comes back to the purpose of PILT – are we paying for the "playgrounds" that we decide to acquire vs. the tax forfeit land. It makes a difference how the land was acquired and what it was acquired for. (Gene Merriam)
- Another difference is the discretion on the land. (Gene Merriam)

Judy Grew Summarized the Key Criteria points that keep coming up.

**Key Criteria to Consider (DRAFT)**

- The reason the state acquired the land
- The discretion that the county has to **sell** the land.
- Where the revenue generated from the lands goes (to the county, to the state) – and the net to all tax districts.
- The character of the land (wetland, etc.)
  - Note that the public value of the land may differ from the private (market) value.

Advisory group members reviewed the Key Criteria points and confirmed they were a good starting point.

**Additional discussion (after the criteria were listed):**

- School trust land presents a wrinkle – it is mostly swamp and is not fairly distributed (Gene Merriam)
- Dave Schad requested if Susan Damon if could provide a map the different kinds of trust lands
- I don't disagree with any of the criteria, but they all seem to fall into the category of determining the initial payment. There is a second piece to the puzzle about how does it move in the future, and that's where we start talking about the differences in inflation, a

flat rate, Ad Valorem... reassessed every year, or every 5 years. I don't want to lose that. (Mike Roelofs).

- A reminder that any decisions made will create incentives to buy or not buy land. (Todd Beckel)
- Another issue is acquisition by easement, which is a road in the future. Currently property owner pay for easements in fee simple, but after the easement is established they often ask for a reduction in value. (Keith Carlson)

Judy Grew noted that the group had brainstormed some key criteria for setting rates. She asked how the group would prefer to set reimbursements – based on property value assessments or instead go to a predictable rate structure with some type of inflation adjustment?

- At some point in time this land moves from a taxable to a non-taxable status – some kind of decision should be made as to what's the appropriate reimbursement for that piece of property. If that land is going to remain stable, what is the point of re-assessing it every five years? A flat rate (or a set of flat rates) are easier to explain to the public, and if there is no change in use, no sale, and no market-based explanation for the change, it should remain flat. (Mike Roelofs)
- On the other hand, property value should come in because it is a payment "in lieu of" taxes. (Hence the name.) (Jill Hall)
- If inflation adjustments would be made, State LGA aids use the implicit price deflator. (Keith Carlson)
- Brian Connors discussed the Green Acres program, where land value is indexed.

### **Next meeting**

The next meeting will be held on Friday, April 27, from 9:00am-noon, in the same room (6<sup>th</sup> Floor North and South Conference Rooms, DNR Headquarters, 500 Lafayette, St. Paul).

The group will continue the PILT payment rates discussion, and will begin discussion on the adequacy of the current funding for payments and the impact of additional land acquisition on the funding.