

**PILT Report Commissioners' Advisory Group
April 27, 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)

Township Representatives:

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

State Agencies:

Mike Roelofs (MN Management & Budget)
Dave Schad (Dept. of Natural Resources)
John Hagen (Department of Revenue)

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)
Annalee Garletz (Association of MN Counties)

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

Announcements and Review of 3.23.12 meeting summary

- Judy Grew welcomed everyone to the fourth meeting. She went over the meeting minutes from 3.23.12 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>
- John Hagen (Revenue) said that most of the results are in for the land assessor's survey but some assessors are busy with boards of appeal. They will need more time to gather and analyze the information. He will give a review at the next meeting.
- The next meeting is scheduled for Friday, May 25 which is the Friday before Memorial Day. A decision was made to move to **Thursday, May 24**.
- We are also running behind and decided the May 24 meeting will be **6 hours** and a lunch will be brought in.
- We are going to need another meeting after the May meeting as well. Patti Blom will try to get a date figured out that will work for the majority of people.

Action items from 2.24.12 meeting

Keith Carlson gave an overview of school funding/equalization formula (handout provided).

The handout used was a September 2011 publication by House Research, *Financing Education In Minnesota 2011-2012*.

A reminder concerning why this item was on the agenda: the advisory group had noted that the payment to Vermillion/Soudan was one where the school district participates in the distribution of the PILT payment, and group had inquired about whether this should be the case generally. Keith's overall conclusion was that this distribution is not necessary. Some significant points:

- The school aid formula prior to 2002 split the general operating expenses by formula: 70/30 and 60/40 between local property taxes and the state. But since then, all funding has been coming from the state. Therefore, the issue of a tax base loss due to the purchase of natural resource property is less of an issue for school districts.
- Keith reviewed a complex formula and spreadsheet by which optional (voter-approved) property tax levy aid is equalized between districts. The intention of the formula is to equalize school levy revenues between more wealthy and less wealthy school districts. A key consideration in the calculation is Adjusted Net Capacity DIVIDED BY the Adjusted Marginal cost of pupil units. Keith demonstrated how, if payments to school districts were to become a broader policy and appropriate offsets were made, school districts would benefit by PILT distributions on one end, but could lose under the equalization formula. It may still be a net gain for the school, but it might not amount to a lot. But meanwhile, since the PILT payment is finite and divided with local government, local government would lose the entire amount.
- Considering how the school districts might be affected based on Keith's analysis, Dave Schad asked if anyone knew what the argument was for including the school districts in the Vermillion/Soudan distribution in the first place. John Ongaro replied that he wasn't there at the time, but he believed the argument concerned the greater opportunity for the county to build its tax base had they been allowed to develop the property.

Action items from 3.23.12 meeting

a. School trust land map (handout)

There was a request for a map of the school trust land. Susan Damon provided a handout with a breakdown showing the four types (School Lands, Swamp Lands, Indemnity Lands and Internal Improvement Lands).

b. FY10 PILT "At a Glance" (handout)

A "cheat sheet" was requested that showed PILT total acres, percent of acres, total payment and percent of payment by payment type.

c. State natural resources land in Ramsey County

There was a question last time about what natural resources land is in Ramsey County? Susan provided a handout with the breakdown. John Hagen had indicated earlier in the meeting that the large jump in value for Pike Island in Ramsey County (a part of Fort

Snelling State Park that is in Ramsey County) had been reviewed by the Ramsey County assessor as part of the DOR survey, and that it was in error. The value should be coming down.

Follow-up from 3.23.12 meeting discussion: The adequacy of the current funding for payments and the impact of additional land acquisition on the funding.

a. Outdoor Heritage Fund Appropriations “At a Glance” handout

A document provided by the staff of the Lessard-Sams Outdoor Heritage Council showed that if acquisition of land in fee from the Outdoor Heritage Fund continues at similar rates over the life of the fund, after 25 years it anticipated a total liability created of \$3-5 million. Keith Carlson noted that this raised the easements issue again, since PILT is not paid on easements.

b. DNR land acquisition

Susan Damon handed out and discussed some information on DNR land acquisition plans. In areas where there were no plans detailing land acquisition goals in acres, the DNR projected additional value of acres based on historical averages. The Vermillion/Soudan purchase for a new state park was taken out of the average calculations, since the purchase of land for a new state park is not anticipated in the near future. The analysis showed that if the DNR proceeds at its current rate of acquisition, it would have an annual impact on PILT of \$141,188. Dave Schad explained the two additional lines on the handout – the DNR also estimated the additional impact of partner additions to AMAs and WMAs for inholdings, and this brought the total to \$148,499. The final line showed the impact if the DNR were to expand land holdings according to long-range plans. These plans are more aspirational in nature, so the final line of \$363,389 should be considered a high-end estimate. The more likely numbers are on the previous lines. Keith Carlson asked if LSOHC acquisition were included in the DNR numbers – Dave said yes.

Related to DNR land acquisition plans, someone asked if the legislative changes to School Trust Land would change Legacy fund or DNR purchases of land that are currently in trust fund status. Dave Schad said they would be looking at trust lands that have limited revenue potential and would compensate the trust for those lands. These lands would be managed as old growth forest, for example. The first step for the new trust fund manager will be to inventory the land. Susan Damon clarified that land acquired in this way would not be considered acquired land – it would be compensated in the 64 cent range, as current.

c. Continuation of group discussion on the adequacy of the current funding payments

Discussion continued from the previous meeting regarding the adequacy of PILT payments. The two focus questions were:

Describe what you consider "adequate." OR what are the signs or signals that payments are NOT adequate? Responses:

- They want to know about the adequacy of current funding for payments. It wouldn't be fruitful to ask for a lot of money from the state because there isn't any. We are going to have to keep in the back of our minds that there is no additional pot out there at this point – maybe in the future, but not currently. It might not be sustainable at this point. There does not appear to be, in the near future, a mechanism by which PILT payments over all could be increased without harming another part of state government. (Brian Connors)
- We could address something like what we see in Ramsey County - some of the inequality in some of the payments – how do we balance that? Do we designate a flat rate for everything? Any way, there will be winners and losers. (Rich Sve)

Judy Grew referenced the group's prior discussion about the pros and cons of changing formulas, leveling out some of the funding, and the criteria that matter. She asked if the group was really looking at redistributing that \$26 million vs. commenting on the adequacy of that amount? Is it more the *distribution within* than the *amount of*?

- Not entirely. We would not freeze at \$26 million - we still need a price inflator. Somewhere along the line we are going to need to make adjustments. (Rich Sve)
- Even with reasonable price inflator, there are still issues. For example, we still have some counties with large proportions of their land in public ownership who are also being reimbursed at a flat rate. (Ron Nargang)
- If it is county administered land it's the same value no matter where you are in the state. And if its state administered land it is the same value no matter where you are in the state. And the bad part is, is that one county has over a million acres and the other has about 600,000 acres, they will never ever catch up. It always comes down to winners and losers. (Todd Beckel)
- The biggest burden is in the public hunting and non-hunting. Do you come up with a set rate? (Todd Beckel)
- Todd Beckel asked participants what the average property values were in the various regions of the state ? In the southern part of MN vs. the northern part of MN? What's an average acre worth?
 - Northern Minnesota = \$1,000 an acre
 - Southwestern Minnesota = \$6,000
 - These two differences make for about a \$40 per acre difference in PILT payments.
- County revenues are lower for PILT land than for taxed land (as a group). (Brian Connors)
- The above is true as a whole group, but the ¾ of 1% can provide a better return than taxes (depending on the parcel). (Dave Schad)

The next focus question concerned resolutions being passed in various jurisdictions. *What do you make of the recent decision in approximately 18 jurisdictions to place a moratorium on public land acquisition? Is it a sign that PILT payments are not adequate? Or a sign that citizens in these counties aren't fully aware of PILT payments? What are you hearing in these jurisdictions?*

- When there are proposals to cut PILT, we get these resolutions. (Anna Lee Garletz)
- They may also be opposed to the management practices. We have a no net increase in DNR land – they are opposed due to drainage. (Jill Hall)
- For Lake County, it's not a PILT issue. Lake's current board sees it as a tax base issue. Clear and simple, that's why they have their policy in place. Lake's no net gain resolution goes back to 1970's. (Rich Sve)
- DNR priorities are in the Southwest, where there are now few opportunities for public recreation. (Dave Schad)
- There is not much opposition in Renville County – the acres acquired are not farmable. (Bob Fox)
- No net loss resolutions also have a lot to do with the trust in the DNR and reactions to things like ATV rules with the DNR. Over the past 6-8 years, communication from the DNR to the local counties has been much better and has enhanced trust. (Todd Beckel)

Judy Grew asked if it was a valid conclusion to say that some of these resolutions that we've been seeing lately are not necessarily an indicator that counties are seeing PILT as inadequate, but an indicator that PILT might be threatened, and the resolutions signal opposition to reduce or eliminate PILT.

- Everyone agreed.

Judy Grew stated for the report we want to make that clear, as to how do we view these county decisions in light of PILT payments.

Keith Carlson asked members who represented local areas if taking away the inflation adjustment was a large issue for you?

- Very few are aware of the loss of the inflation adjustment. (Todd Beckel)
- When we lost it, it fell right during reevaluation so it was really a blip, you didn't really see the decrease because there is not an increase because of property values. (Rich Sve)

Conclusions

Ron Nargang noted that the group was building an argument for PILT. The lands are important. These places get used and the public ought to be willing to pay for it. Todd Beckel asked if group members thought the legislature understood this rationale?

- Part of the recommendation should be to build a coalition – that demonstrates that this money is not a throw away. (Ron Nargang)
- In the last 6-8 years, the budgeting of PILT has been shifted largely from DNR's budget to the Department of Revenue or the tax committee. Shifted to be considered a tax relief or aid program. Consider changing that in our recommendations. (Keith Carlson)

- Regardless of the committee assignment, it is risky to fight the DNR on General Fund issues – PILT is considered an “easy cut.” (John Ongaro & Anna Lee Garletz)
- The DNR is in favor of PILT (Dave Schad)
- It seems like over the last several years we have been doing a lot of cutting and PILT has fared better than LGA and county program aids. (Mike Hoops)
- Mike has a point, but I would also like to say that cuts in PILT yield relatively small dollars relative to the type of value the dollars generate. (Keith Carlson)
- Keith’s point is a good one – consider the committee assignment for PILT (Dave Schad)
- The DNR manages the land, but the legislature “owns” the land and as the owners ‘pay the bill’ - but what happens is the blame gets shifted to the DNR – the process pits the DNR against the counties. (Todd Beckel)

Judy Grew stated that in summary – in terms of what we are communicating in the overall report to the legislature – members have pointed out the essential aspects of PILT and the necessity for adequate support for PILT. Potentially we have a recommendation to at least consider the committee of jurisdiction for PILT issues. However, there are pros and cons either way. We are also seeing a need to educate legislators on why we have PILT in the first place. Is this an issue of the rate of turnover in the legislature, the current budget context or just a general need for education?

- There is just a general need for education especially new urban and southern legislators. (Bob Fox)

Judy Grew asked if the group could move to the third focus question:

What has the research and data given to the group thus far shown about the relationship between increasing land acquisition and increasing PILT payments?

- Private people pay tax when they purchase land, this should apply to state. This will ensure it is in the public interest. (Jill Hall)
- Land acquisition is a small component, but that is not the perception. (Ron Nargang)
- The perception is contrary to what the data show. (Kermit McRae)
- The LSOHC made the biggest recent acquisition by easement. They (Blandin) marched into tax court looking for a tax break. (John Ongaro)¹
- The easement was for 1 million acres of commercial forest land that were in play – we needed to pay attention because development would be punching roads into it, and it would have cost the state and local units of government a ton of money. We avoided fragmentation of large blocks of interior forest. However, it feels it was a violation of trust by Blandin to come back and try to get a raise in property tax. Nevertheless, it would have been wrong to pursue acquisition by fee title. (Ron Nargang)
- If the court finds in favor of Blandin, and assessed values end up going down as a result of these easements, should PILT for easement lands be considered then? (Dave Schad)
- There is an expectation of successors when the state is the easement owner. There ought to be a PILT payment. Diminished vs. unfettered right. (Gene Merriam)

¹ At the following Advisory Group meeting, Brian Connors clarified that the easement acres in question were not included in Blandin’s tax court filing.

Next meeting

The next meeting will be held Thursday May 24 and will be a 6 hour meeting. The meeting will be in the same room (6th Floor North and South Conference Rooms, DNR Headquarters, 500 Lafayette, St. Paul).

At the next meeting we will hopefully have the results of the assessment survey. There will also be a presentation from a DNR student worker on PILT in other states. There was also a request for a presentation on Glacial Ridge and how the local concerns were addressed to illustrate another approach. Then Kent and Anna Lee will discuss township/counties alternative methods.