



# **SCHOOL TRUST LANDS REPORT**

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# **Section 1 - Introduction**

# School Trust Land Reports

## ■ ***2010 Session Laws, Ch. 361, Art. 4, Sec. 70(a), states:***

By July 15, 2010, the commissioner of natural resources shall provide to the chairs of the house of representatives and the senate committees and divisions with primary jurisdiction over natural resources finance and education finance and the Permanent School Fund Advisory Committee information necessary to evaluate the effectiveness of the commissioner in managing school trust lands to successfully meet the goals contained in Minnesota Statutes, section 127A.31. The information to be provided shall include, but is not limited to:

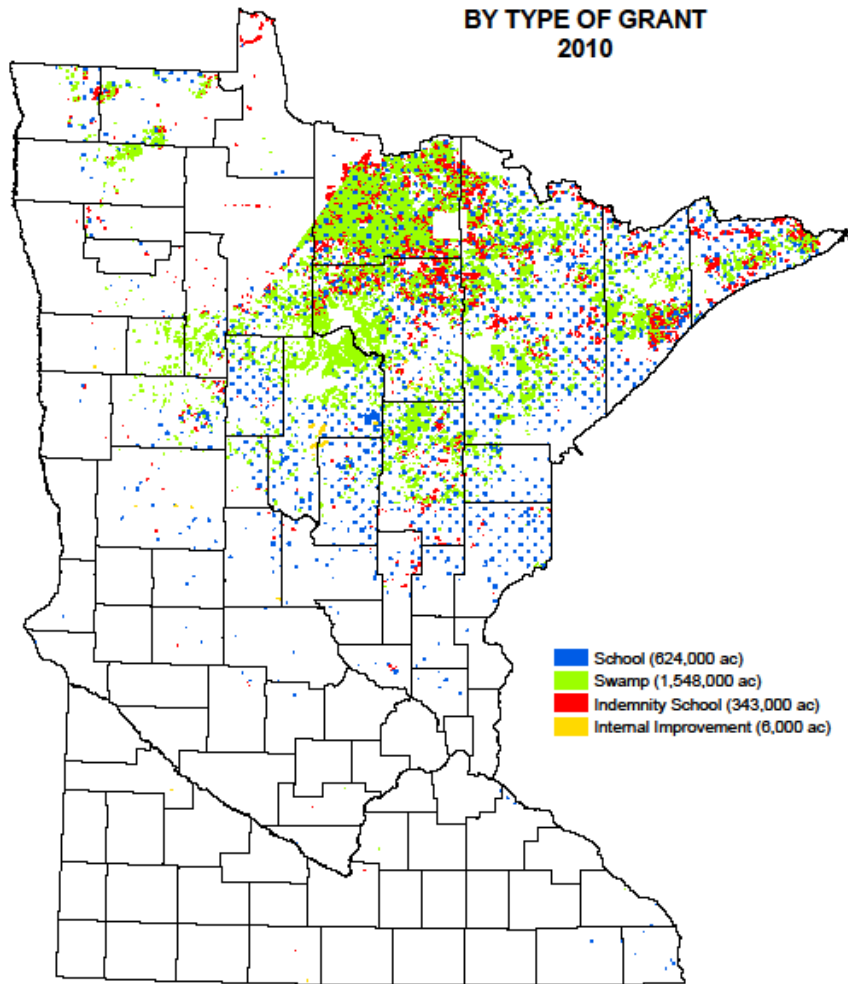
- (1) an accurate description of the school trust lands and their land classification;
- (2) policies and procedures in place designed to meet the requirements of the fiduciary responsibility of the commissioner in management of the school trust lands; and
- (3) financial information identifying the current revenues from the land classifications and the potential for future maximization of those revenues.

## **Section 2 – Land Classifications**

# School Trust Lands

- 2.5 million acres of surface and minerals
  - ▣ Approx. 1.55 million from the swamp land grant
  - ▣ Most of the land is in the NE part of the state including approx. 481,000 acres in St. Louis County and 854,000 acres in Koochiching
  - ▣ Additional 1 million acres of severed minerals

**SURFACE SCHOOL TRUST LANDS  
BY TYPE OF GRANT  
2010**

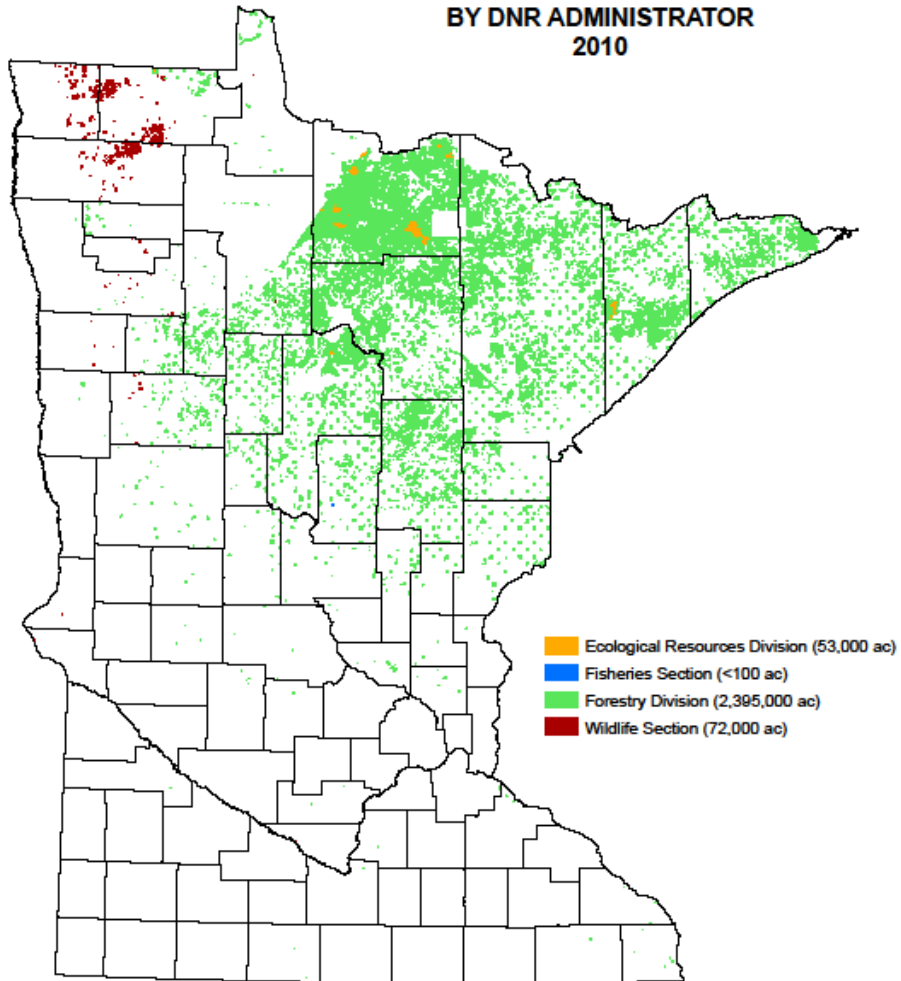


# School Trust Lands

# School Trust Lands

- Approx. 1.6 million acres of wetland (Based on the U.S. Fish and Wildlife Service National Wetlands Inventory)
- Approx. 1.48 million acres of Commercial Forest; approx. 585,000 acres of Non-commercial Forest Land; approx. 456,000 acres of Non-forest Land
- Approx. 2.4 million acres administered by Division of Forestry

**SURFACE SCHOOL TRUST LANDS  
BY DNR ADMINISTRATOR  
2010**



# School Trust Lands



## Section 4 – Land Management

- ❑ Surface Leases, Licenses, Easements, and others
- ❑ Land Exchanges
- ❑ Land Sales
- ❑ Aggregate Leasing

# Surface Leases, Licenses, Easements, and other

- DNR Lands & Minerals determines the terms and conditions of leases, licenses, and easements
- DNR Forestry is responsible for timber valuations and other field work
- DNR leasing policies requires that all leases on trust fund lands must be charged the full cash rental
- On most leases the annual lease fee to a governmental entity is 6 percent of land value and 9 percent of land value to an individual or private entity. If the market rate for the lease is determined to be greater, then the DNR will adjust the lease fee.

# Surface Leases, Licenses, Easements, and other

- Payments for easements and licenses are made once, for the life of the contract
- Easements may be temporary or permanent
- Revenues from easements are lump sum payments, usually equal to 100% of the value of the land
- Temporary easements have a term of a few years and are charged at 50% of the value of the land

# Surface Leases, Licenses, Easements, and other

Contract type	Number of contract	Acres
Agricultural leases	60	1,766.95
Wild Rice Leases	5	534.40
Aggregate leases	36	488.60
Home site leases	6	3.24
Hunting cabin leases	47	25.32
Lakeshore cabin leases	3	3.30
Misc. commercial leases	29	1,955.73
Misc. government leases	18	136.55
Misc. private leases	33	95.63
Misc. leases, combined	236	2,469.74
Easements	762	5,699.21
Land crossings licenses	537	11,419.90
Water crossings licenses	2,675	N/A
<b>Subtotal:</b>	<b>4,452</b>	<b>24,598.57</b>
Grant-in-Aid permits	104	N/A
Management access permits	65	N/A
Subtotal:	169	N/A
<b>Total:</b>	<b>4,621</b>	<b>24,598.57</b>

# Land Exchanges

- School trust lands may be exchanged for any publicly or privately held lands with the unanimous approval of the governor, attorney general and the state auditor
- MS 92.121 requires the DNR to exchange lands when, as a result of management practices applied to the permanent school fund lands and associated resources, revenue generation has been diminished or prohibited and no alternative has been put into effect to compensate the permanent school fund for the income losses

# Land Exchanges

- The lands to be exchanged are valued by appraisal
- In any exchange the lands to be exchanged for school trust lands must be of substantially equal value or greater
- The DNR has completed the exchange of school trust lands within state parks and state recreation areas
- Two school trust land exchanges were approved by the Executive Council this week

# Land Exchanges



Red and white pine forest in Itasca State Park. This was school land that was exchanged for acquired forestry land outside of the park in 2007.



# Land Sales

- DNR typically holds one or two public land sales a year
- Before offering a parcel for sale, a minimum bid is established for each parcel. The minimum bid is the value of the land, the value of any merchantable timber, any survey and appraisal costs, advertising costs, deed tax, and recording fee
- Land sales have recently decreased with the economic downturn
- Because of the economic downturn the DNR has been offering less school trust lands for sale



# Aggregate Leasing

- Substantial deposits of construction aggregate resources exist on school trust lands
- The DNR makes great effort to try and convert the aggregate resources on school trust lands into revenue for the school trust fund through the leasing of construction aggregates
- The process often involves planning, marketing, inventory fieldwork, development of a site-specific management plan to both manage the resources and protect the environment, legal access, and drafting of a lease

# Aggregate Leasing

- The DNR makes efforts to protect school trust land aggregate resources from designations that would diminish revenue
- The DNR conducts lease bid sales on some aggregate deposits
- Once an aggregate deposit site is leased and mining operations begin, there are many years of revenue potential available to the school trust

# State Earth Materials Leases on Permanent School Trust Lands

## Program Information

The Department of Natural Resources offers commercial leases on **Permanent School Trust lands** and other State owned land types for the purpose of the commercial production of **construction aggregates** [PDF](#) (sand and gravel, crushed stone) or landscape stone by private entities. DNR also offers commercial leases of stockpiles from former iron mining operations.

- The DNR administers approximately **2.5 million acres of Permanent School Trust Lands, viewable on this map** [PDF](#) (~1 mb, 8.5"x11"), and has a fiduciary responsibility to generate revenue from those lands for the Trust. The sale of construction aggregates is one way to generate revenue.
- The **locations of active and historic State earth materials leases and potential leases sites on Permanent School Trust Lands are shown on this index map** [PDF](#) (~3 mb, 11"x17"). The index map displays the locations of 44 active earth materials leases, 105 historic earth materials sites previously leased, 4 sites planned for bid offerings in 2010, and 18 sites for which a future lease offering is being considered.



**If your business would like to learn more about these opportunities, please contact:**

Glenn Melchert, Geologist

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MN DNR - Division of Lands and Minerals

## Marketing Earth Materials Leases on PSTF Lands

## New MN DNR Web Page of State Earth Materials Leases on Minnesota Permanent School Trust Lands

[http://www.dnr.state.mn.us/lands\\_minerals/aggregate\\_maps/earth\\_materials.html](http://www.dnr.state.mn.us/lands_minerals/aggregate_maps/earth_materials.html)



# Aggregate Leasing



## **Section 5 – Minerals Management**

# Iron Ore/Taconite

- ❑ Rents and royalties from iron ore/taconite leases are the largest contributor of revenue to the school trust fund
- ❑ On average the percentage of revenues that comes from iron ore/taconite leases is approximately 96 percent of the total mineral lease revenue
- ❑ In addition to iron ore and taconite leases, the Division of Lands & Minerals administers metallic minerals, peat, and industrial minerals leases
- ❑ Approx. 51% of state iron ore/taconite leases are on school trust lands



# Metallic Minerals

- ❑ DNR has continued to lease school trust lands for Metallic Minerals (eg. Copper, Nickel, Gold, Silver)
- ❑ At the 2010 Metallic Mineral lease sale 14,925 acres of school trust lands were leased (approx. 32% of state acres leased)
- ❑ Approximately 46,000 acres of school trust lands are currently under a metallic mineral lease (approx. 31% of state acres leased)



# Metallic Minerals

- The school trust minerals are widely dispersed throughout the northeast part of the state. Thus any promotion of metallic mineral resources is a promotion of school trust land minerals.
- Metallic mineral mining on school trust land is believed to be the best opportunity for greatly increased revenues to the school trust. It is estimated that \$1.4 billion could be generated from certain deposits on school trust over the 20 to 25 year operation of a mine.





# **SECTION 6 – MINNESOTA STATUTES AND SESSION LAWS**



## **Section 7 - Revenues**

# School Trust Revenue FY2004-2010

	2004	2005	2006	2007	2008	2009	2010*
<b>Minerals</b>	\$5,955,094	\$11,564,785	\$11,159,642	\$16,549,280	\$20,972,274	\$16,880,832	\$10,454,112
<b>Timber</b>	\$10,622,966	\$9,478,811	\$11,344,463	\$9,915,391	\$12,258,017	\$9,058,572	\$8,405,199
<b>Land Sales</b>	\$648,405	\$505,253	\$1,099,937	\$774,524	\$1,028,848	\$169,367	\$248,609
<b>Leases/Licenses/ Easements/ Permits**</b>	\$726,218	\$733,533	\$956,976	\$759,120	\$863,597	\$1,031,977	\$2,022,454
<b>Campground Fees</b>	\$143,067	\$111,767	\$121,341	\$113,134	\$150,172	\$116,591	\$148,781
<b><u>GROSS TOTAL</u></b>	<b><u>\$18,095,750</u></b>	<b><u>\$22,394,149</u></b>	<b><u>\$24,682,359</u></b>	<b><u>\$28,111,449</u></b>	<b><u>\$35,272,907</u></b>	<b><u>\$27,257,340</u></b>	<b><u>\$21,279,155</u></b>
<b>Minerals</b>	\$5,955,094	\$11,564,785	\$8,993,864	\$15,023,885	\$19,203,341	\$14,979,536	
<b>Forestry</b>	\$5,590,000	\$4,170,000	\$6,390,000	\$2,740,000	\$3,768,861	\$100,833	
<b>Land Sales</b>	\$648,405	\$505,253	\$1,099,937	\$774,524	\$1,028,848	\$169,367	
<b><u>NET TOTAL</u></b>	<b><u>\$12,193,499</u></b>	<b><u>\$16,240,038</u></b>	<b><u>\$16,483,801</u></b>	<b><u>\$18,538,409</u></b>	<b><u>\$24,001,050</u></b>	<b><u>\$15,249,736</u></b>	
	*Preliminary FY2010 revenues as of June 30, 2010.						
	**FY10 includes a one-time aggregate damage charge of \$874,155 paid by Enbridge for pipeline right-of-way.						



# **SECTION 8 – LEGISLATIVE REQUIREMENTS FOR RESOURCE MANAGEMENT**



# Minnesota Statutes 127A.31

- Minnesota Statutes, section 127A.31 states the following:

“The legislature intends that it is the goal of the permanent school fund to secure the maximum long-term economic return from the school trust lands consistent with the fiduciary responsibilities imposed by the trust relationship established in the Minnesota Constitution, with sound natural resource conservation and management principles, and with other specific policy provided in state law.”

# Peatland SNA's

- Legislation has established approx. 51,000 school trust lands as Peatland SNA's
- The SNA designation, with few exceptions precludes revenue generation on these lands
- Funding would need to be appropriated to compensate the school trust and remove these lands from trust status
- Approx. 10 years ago the DNR proposed legislation for such an appropriation, but was unable to get the legislation passed

# Horseshoe Bay Leases

- There are three lakeshore lease lots that remain on school trust lands
- The legislature has passed multiple laws that affect the management and revenue generating potential on this school trust land. These laws have required the DNR to continue leasing school trust lands for use as lakeshore lease lots.
- The DNR is only allowed to charge two percent of appraised value as of 2003
- The rental rate of two percent of appraised value is believed to be well below market value

# Minnesota Statutes 92.45

- ❑ MS 92.45 withdraws from sale all state lands, including school trust lands, which border public waters
- ❑ The DNR may sell land that borders public waters only after receiving specific legislation to conduct such a sale
- ❑ Recently, the legislature has decided to not pass certain legislation that would allow the sale of specific school trust lands



# Investment in High Income Real Estate

- The revenue generated by the DNR from school trust lands is deposited into the permanent school fund and invested in stocks and bonds by the State Board of Investment (SBI)
- The DNR does not have the ability to invest revenue from school trust lands into other real estate that would have the potential for a high rate of return

## **Section 9 – Maximizing Revenues**

# Land Development - St. Mary's Lake

- ❑ The DNR is considering developing and then selling a 26.5 acre parcel on St. Mary's Lake
- ❑ The DNR is in the process of deciding on the development design
- ❑ To assist in making this decision the DNR has requested that a market analysis be completed
- ❑ The DNR will work with Fayal Township and St. Louis County

# New Sources of Revenue

- Enbridge Energy Pipeline - \$874,155 collected for aggregate resource encumbrance; deposited directly into the permanent school fund
- Essar Steel/Itasca County Regional Railroad Authority - \$87,957 collected for mineral resource encumbrance; deposited directly into the permanent school fund

# Hill Annex State Park

- The legislation creating the Park recognized that mining could again be conducted on property within the Park
- In 2004 the DNR leased 160 acres of school trust land within the Park for the mining of taconite
- In addition, the DNR may also lease stockpiled lean natural iron ore materials from these school trust lands for the ultimate production of steel

# Wind Energy Leasing

- DNR entered into its first wind energy lease on school trust lands with Mountain Iron Economic Development Authority
- Total rental amount will depend on the size and number of turbines placed on the school trust land
- The DNR will continue to consider lease requests on school trust lands for wind energy projects. However, the best wind resource in Minnesota is in the southwest part of the state, while the majority of the school trust lands are in the northeast part of the state.



## **Section 10 - BWCAW**

# BWCAW Exchange & Sale

- ❑ DNR, Sale & Exchange and BWCAW Subcommittee – PSFAC, and U.S. Forest Service have been working together
- ❑ Minnesota Legislature passed Minnesota Session Laws 2010 - Resolution #1
- ❑ Hybrid Exchange - 2/3 Sale, 1/3 Exchange



# BWCAW Exchange & Sale

- ❑ The DNR and USFS first looked at USFS parcels that were considered for exchange in 2005
- ❑ DNR reviewed these parcels and submitted a new list of approximately 97,000 acres of USFS as potential exchange lands
- ❑ Approximately 9,000 acres of overlap between the lands the USFS will consider exchanging and the DNR list

# BWCAW Exchange & Sale

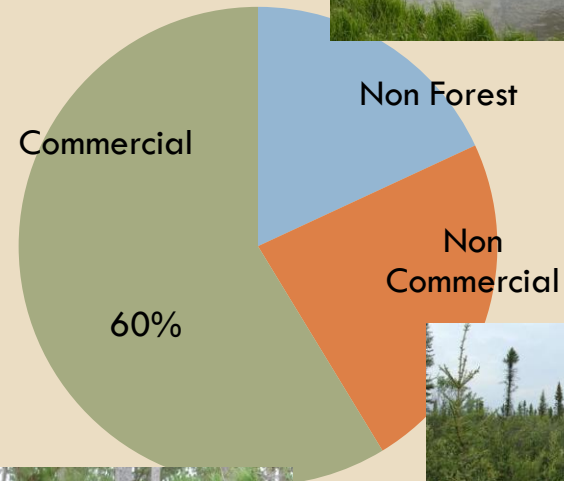
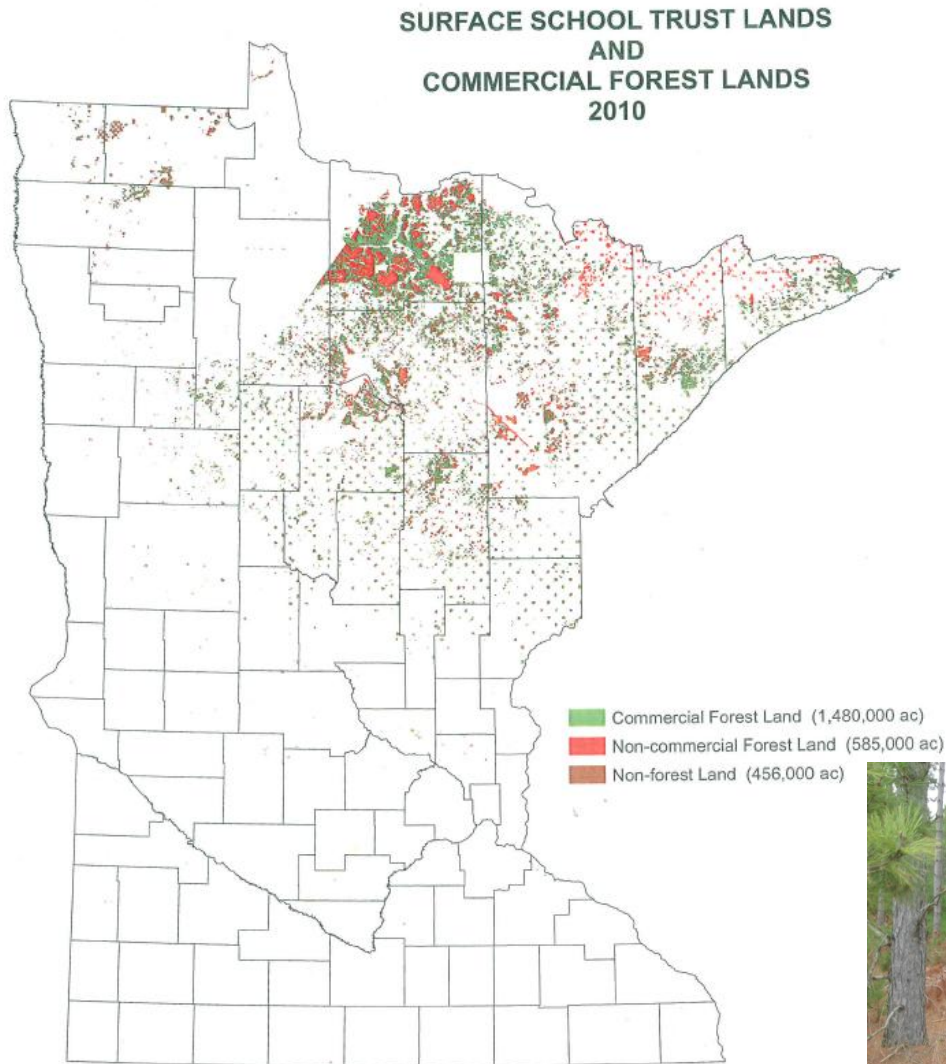
## Next Steps:

- ❑ At the direction of the Sale & Exchange and BWCAW Subcommittee a work group has been formed to work on the exchange part of this transaction
- ❑ The work group has met once and is scheduled to meet again in October

# **Section 11 – Internet Resources**

## **Section 3 – Forest Management**

# Commercial Forest Trust Lands



# Laws & Policies

- 1998 Auditor's Report: *“while common law fiduciary obligations apply to DNR in exercising its management responsibilities for school trust land, the department must also comply with state law.”*

# State Laws

- MS Ch 89A – Sustainable Forest Resources Management Act – *“pursue sustainable management, use and protection of the state’s forest resources.”*
- MS 84.0895 – Protection of Endangered Species – *“the commissioner may undertake management programs, issue orders, and adopt rules necessary to bring a resident species of wild animal or plant that has been designated as threatened or endangered to a point at which it is no longer threatened or endangered.”*

# Guidelines

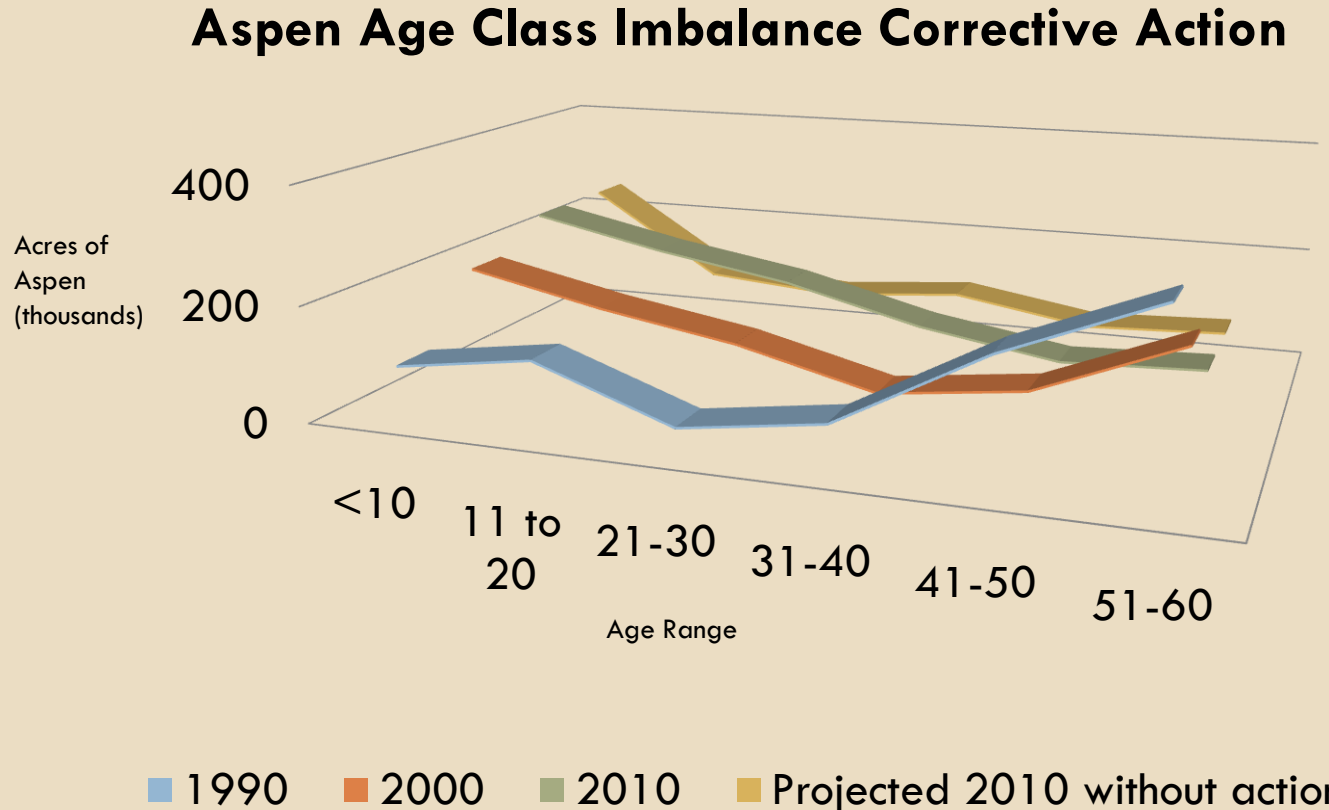
- Old Growth – Intent to identify and protect the remaining high quality old growth stands on DNR administered lands. (44,000 acres, 18,000 acres on Trust lands)
- Minnesota Forest Resources Council – Provides guidance for site level forest management that focus on mitigating the effects of timber management on wildlife habitat, riparian areas and soil and water resources



# Forest Certification

- All DNR Forestry administered lands (incl. Trust) plus most Fish & Wildlife administered.
- Dual Certification (FSC & SFI)
- Industry demand for certified wood products
- Provides better market access for wood products

# Timber Production Initiatives

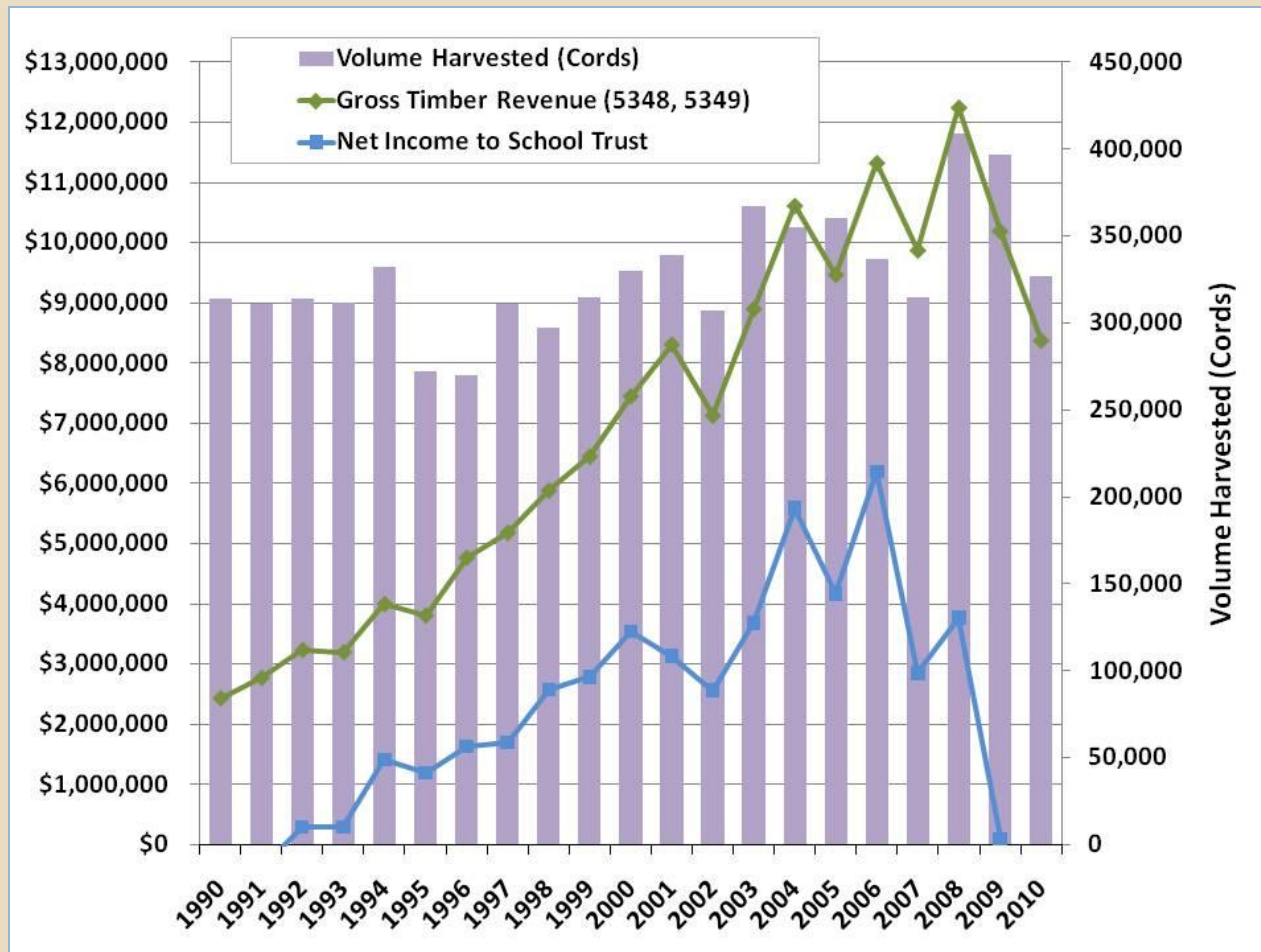


Leveled off aspen age class distribution instead of loss of aspen resource

# Timber Production Initiatives

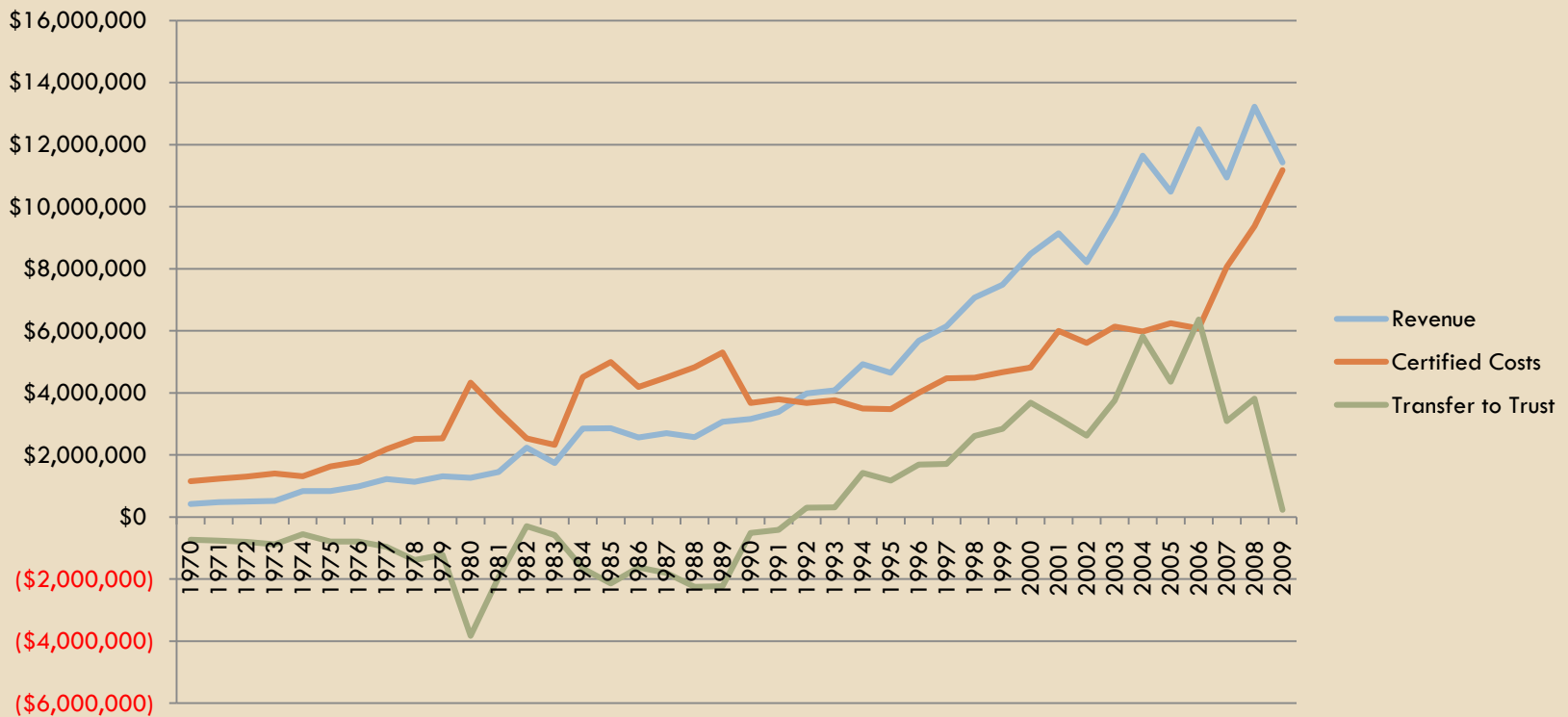
- 2002 Accelerated harvest and Management – increase harvest by over 25% with subsequent regeneration to increase future productivity.
- 2009 Pine & Hardwood Thinning Initiative – to meet industry need for specific products, and increase future productivity.
- 2010 Sawmill Industry Crisis Initiative – additional thinning of pine and spruce to meet sawmill shortages and sustain the industry.

# Financial Effects



The timber industry follows the general economy –investment costs for future revenue remain

# Forest Investment/Revenue



Prior to 1990, timber provided no revenue to trust.

Investment in 1980s provided marked future increase in revenue.

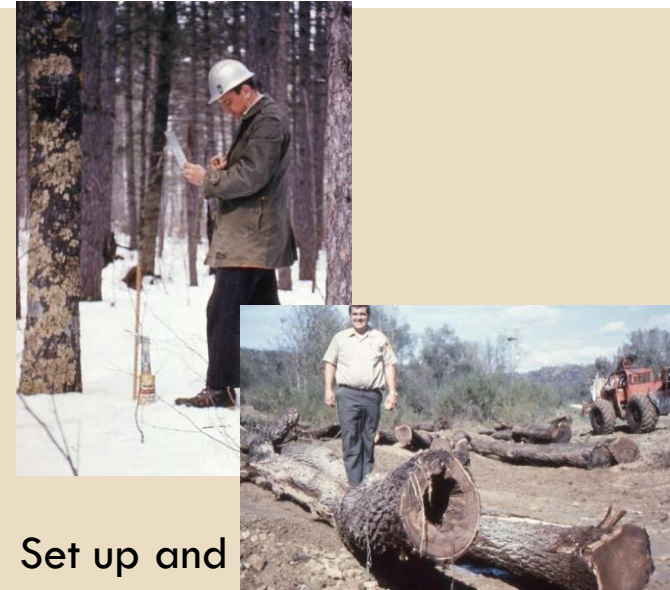
# Investment Activities



Inventory



Planning



Set up and  
administer harvest



Reforestation



Monitoring



Protection



# Additional Considerations

- FY10 bonding provided \$1.5 million in forest investment, about half on Trust land (not cost certified)
- Continued investment in forest management critical to sustained future revenue
- Currently there are 2.1 million cords of wood sold but not harvested:
  - Future no-cost revenue
  - 1/2 on trust land





Questions?





Thank you.

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