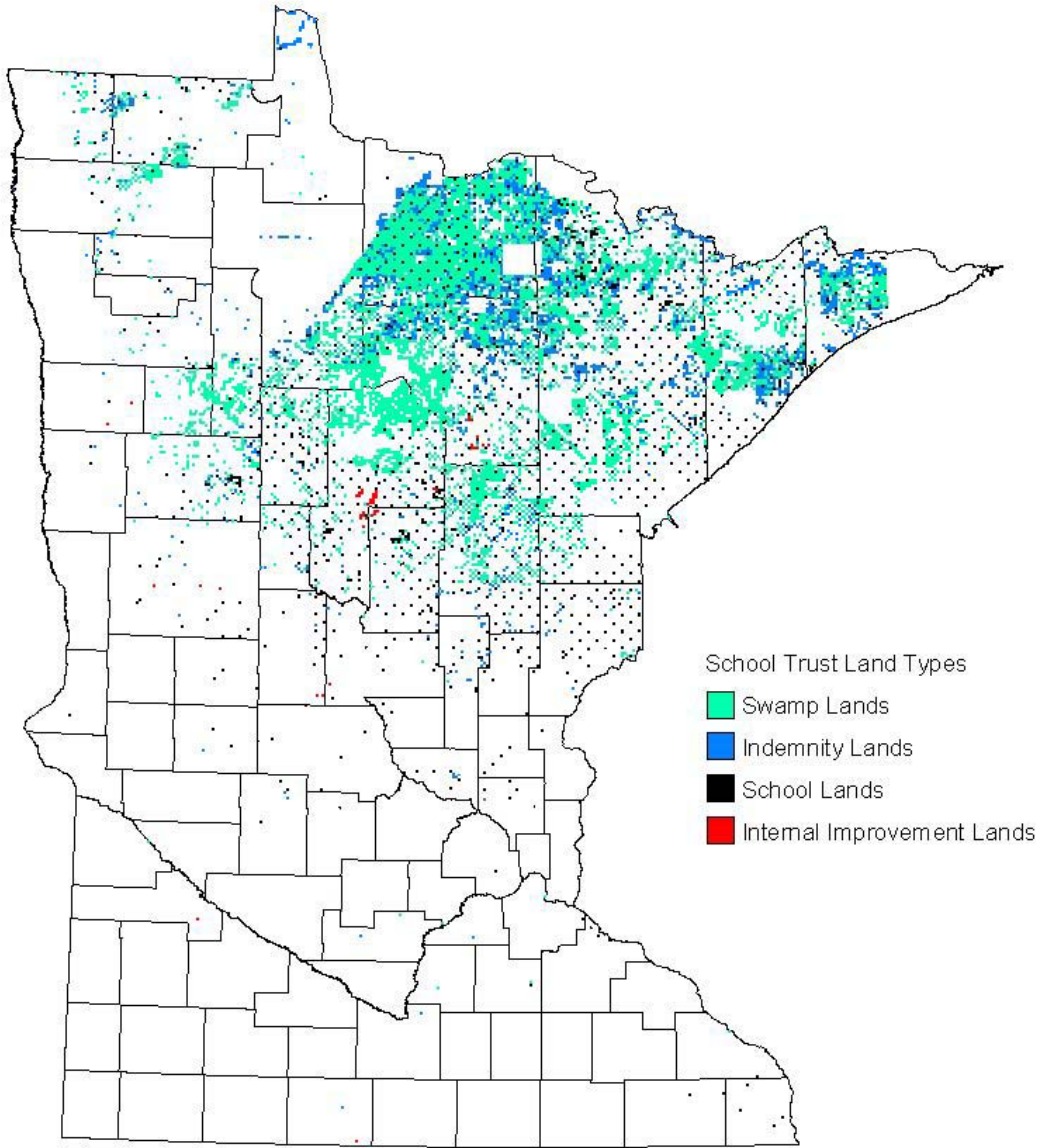




School Trust Lands Managed by the DNR

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School Trust Lands



School and Indemnity School Lands

Enabling Act of 1857: Sections 16 and 36 of every township dedicated for “use of schools”.

If the lands was not available, alternative (indemnity) lands were selected.

Totaled 2.9 million acres.

Swamp Lands

1860: congressional grant of 4.7 million acres of swamp and overflow waters.

Minnesota identified lands by plat and field notes of government surveys.

Internal Improvement Lands

1866: additional 0.5 million acres granted for internal improvements

Distribution of School Trust Land by Type of Grant

Type of Grant	Original Acres Granted	Acres Owned in 2007
School	2,900,000	957,865
Swampland	4,706,503	1,550,898
Internal Improvement	500,000	6,509
TOTAL	8,106,503	2,515,272*

*In addition, there are 1,015,662 acres of severed mineral rights.

Distribution of School Trust Land by County ('07)

County	Acres of Land	%
Koochiching	854,136	34.0
St. Louis	482,151	19.2
Itasca	293,646	11.6
Lake	159,444	6.3
Cass	142,356	5.6
Aitkin	137,696	5.5
Cook	121,506	4.8
Beltrami	60,883	2.4
Roseau	46,609	1.9
Hubbard	29,348	1.2
Remaining Counties	187,492	7.5
TOTAL	2,515,272	

Estimated School Trust Acres by DNR Management Unit

Management Unit	Trust Land Acres	Percent of Trust Land
State Forests & Campgrounds	1,742,092	67%
Wildlife Management Areas	85,681	3%
Scientific and Natural Areas	51,000	2%
State Parks	725	Less than 1%
Riverways	756	Less than 1%
Water Access	2,880	Less than 1%
SUBTOTAL	1,883,185	73%
Outside of Management Units	706,800	27%
TOTAL	2,515,272	100%

The State As Trustee

TRUST:

“A right of property, real or personal, held by one party, for the benefit of another”.

-- Black's Law Dictionary



The State As Trustee

Parties Frequently Named as Trustee:

- Governor
- Legislature
- Commissioner of Natural Resources
- State Board of Investment

The State As Trustee

Basic Questions Any
Trust Manager
Should Ask!

Is it within my
authority to
perform the
act?



The State As Trustee

Basic Questions Any
Trust Manager
Should Ask!

Do I have a
duty to act?



The State As Trustee

Basic Questions Any
Trust Manager
Should Ask!

If I must act, how
shall I act?

If I have a choice,
does the act
serve the
interests of the
trust?



The State As Trustee

Duties of a Trust Manager:

- To use reasonable care & skill in their actions
- To acquire assets of the trust
- To protect the property of the trust

More...

The State As Trustee

Duties of a Trust Manager:

- To invest trust assets properly
- To lease or sell trust property as directed
- To furnish information to the beneficiary
- To be loyal to the beneficiary

Legislative Oversight

A state Permanent School Fund Advisory Committee is established to advise the Department of Natural Resources on the management of permanent school fund land, which is held in trust for the school districts of the state. . . .

The advisory committee shall review the policies of the Department of Natural Resources and current statutes on management of school trust lands at least semiannually and shall recommend necessary changes in statute, policy, and implementation in order to insure provident utilization of the permanent school fund lands.

- Minnesota Statutes, sec. 127A.30

Legislative Oversight (cont'd)

- ⇒ 2008 legislation requires the DNR to report twice a year on how it is:
 - Managing the school lands efficiently
 - Reducing management expenditures and maximizing the revenue deposited into PSF
 - Managing sale, exchange, and commercial leasing
 - Managing school lands to maximize long-term economic return while maintaining sound natural resource conservation and management principles.

Laws of 2008, Chapter 357, Secs. 1 and 2

Legislative Oversight (cont'd)

- 2008 Legislation also expanded the PSFAC. It's members are:
 - Chairs of education committees
 - Chairs of K-12 education budget committees
 - Chairs of environment and natural resources and budget committees
 - Chair of Senate finance committee
 - Chair of House ways and means committee
 - Commissioner of education
 - One superintendent from nonmetropolitan district and one superintendent from metropolitan district
 - Person with expertise in minerals and mining
 - Person with expertise in real estate development
 - Person with expertise in renewable energy
 - Person with expertise in finance and land management
 - Person with expertise in natural resource conservation
 - Person appointed by commissioner of natural resources (nonvoting).

Laws of 2008, Chapter 357, Sec. 36

Revenue

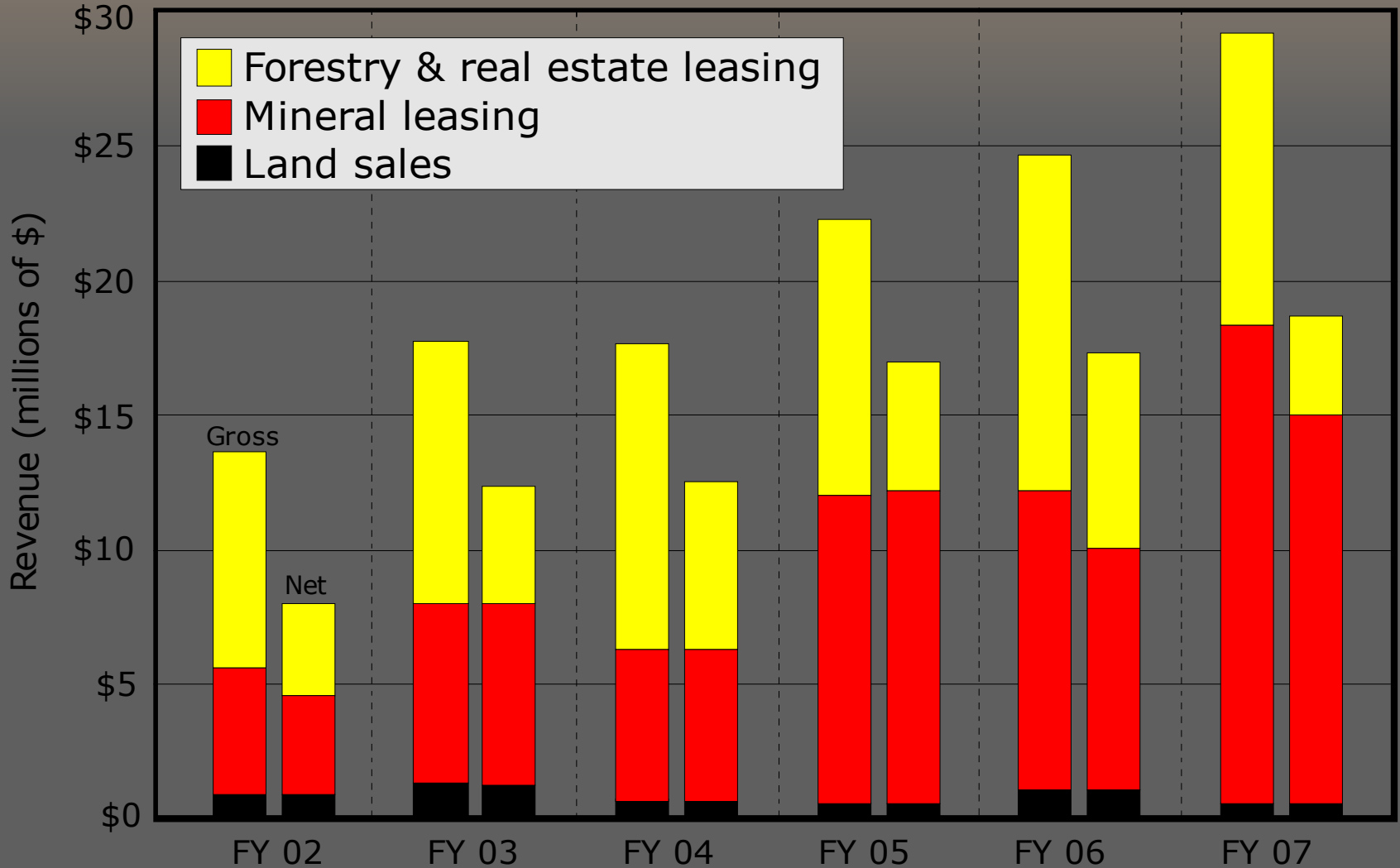


Goal of Permanent School Fund

... (T)o 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.

-- Minnesota Statutes, sec. 127A.31

Overall gross and net revenue, FY 02-07

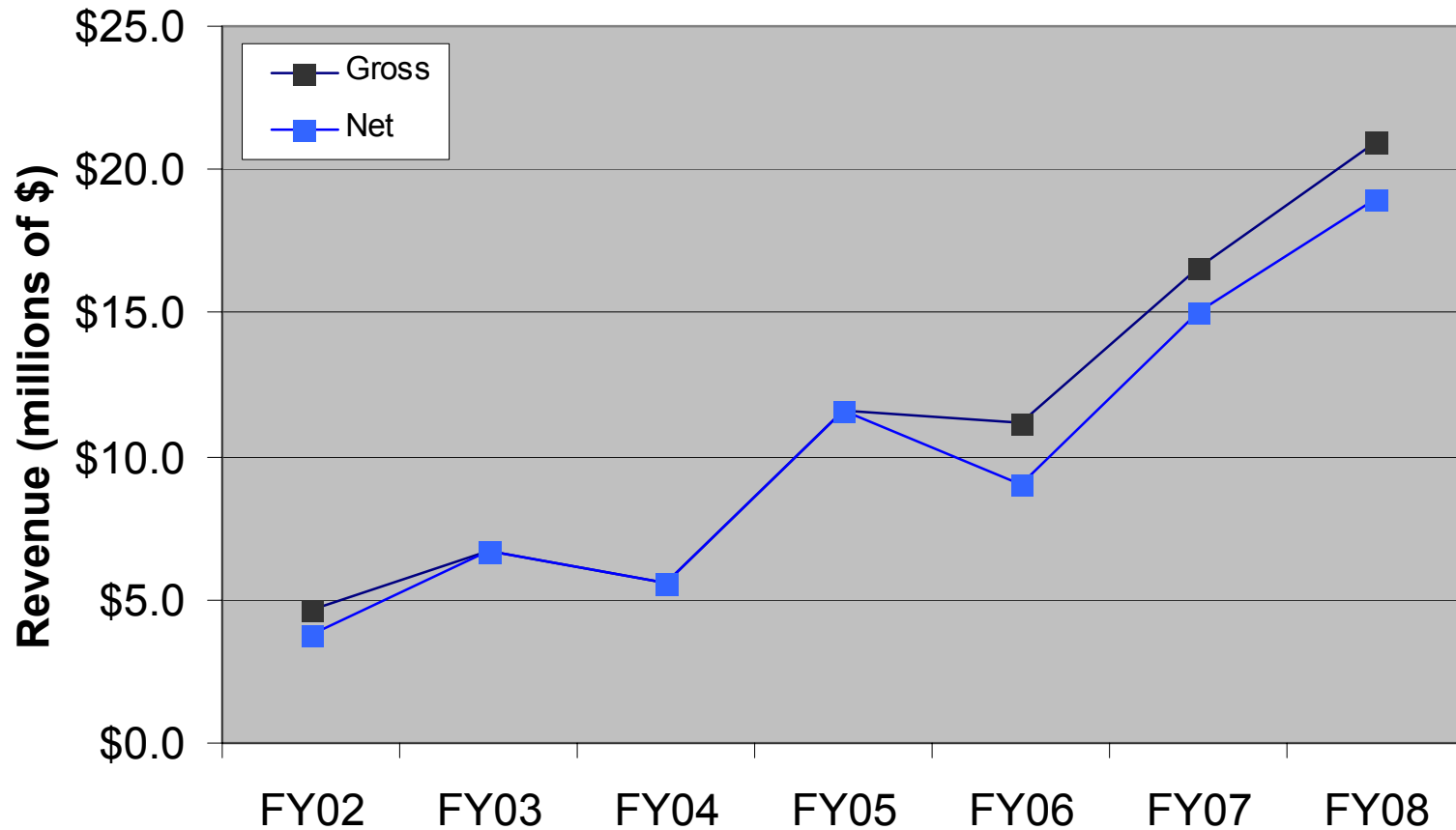


Revenue to Corpus of PSF

- Mineral Leases less portion deposited into Minerals Management Account and appropriated to DNR
- Land Sales
- Forest Campground fees; wild rice lease fees; and standing timber from land sale parcels
- Net Revenue from Forestry Suspense Account

The revenue in the corpus of the trust is managed by the State Board of Investment.

Gross and net minerals revenue, FY02-08



Minerals Management Account

⇒ 20% of income generated from mining is directed to the DNR Minerals Management Account; the remainder is distributed as directed by law. For school lands, 80% of the mineral lease revenue goes straight to the corpus of the PSF.

⇒ The Legislature appropriates money from the Minerals Management Account to the DNR for minerals management activities.

Minerals Management Account (cont'd)

➔ The Minerals Management Account was created to have a \$3 million principal, to be drawn down in the event that future income generation drops. This contingency amount was achieved in FY07.

➔ At the end of each fiscal year, the amount in the Minerals Management Account that exceeds \$3 million is distributed to the school and university trust funds in the same proportion as total mineral lease revenue received in the previous biennium from school and university lands.

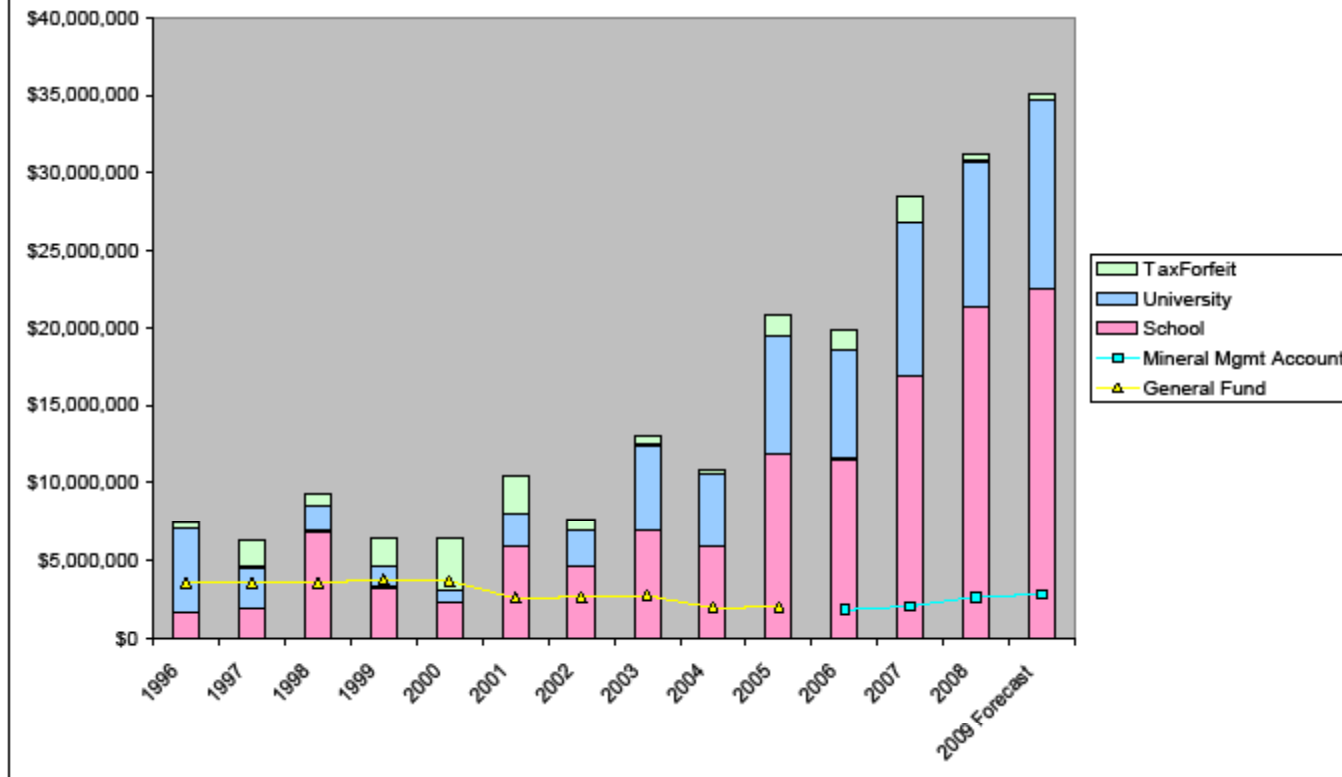
Minerals Management Account (cont'd)

⇒ At the end of FY07, the PSF received \$1.729 million as its distribution from the Minerals Management Account. FY08 distribution is \$2.385 million

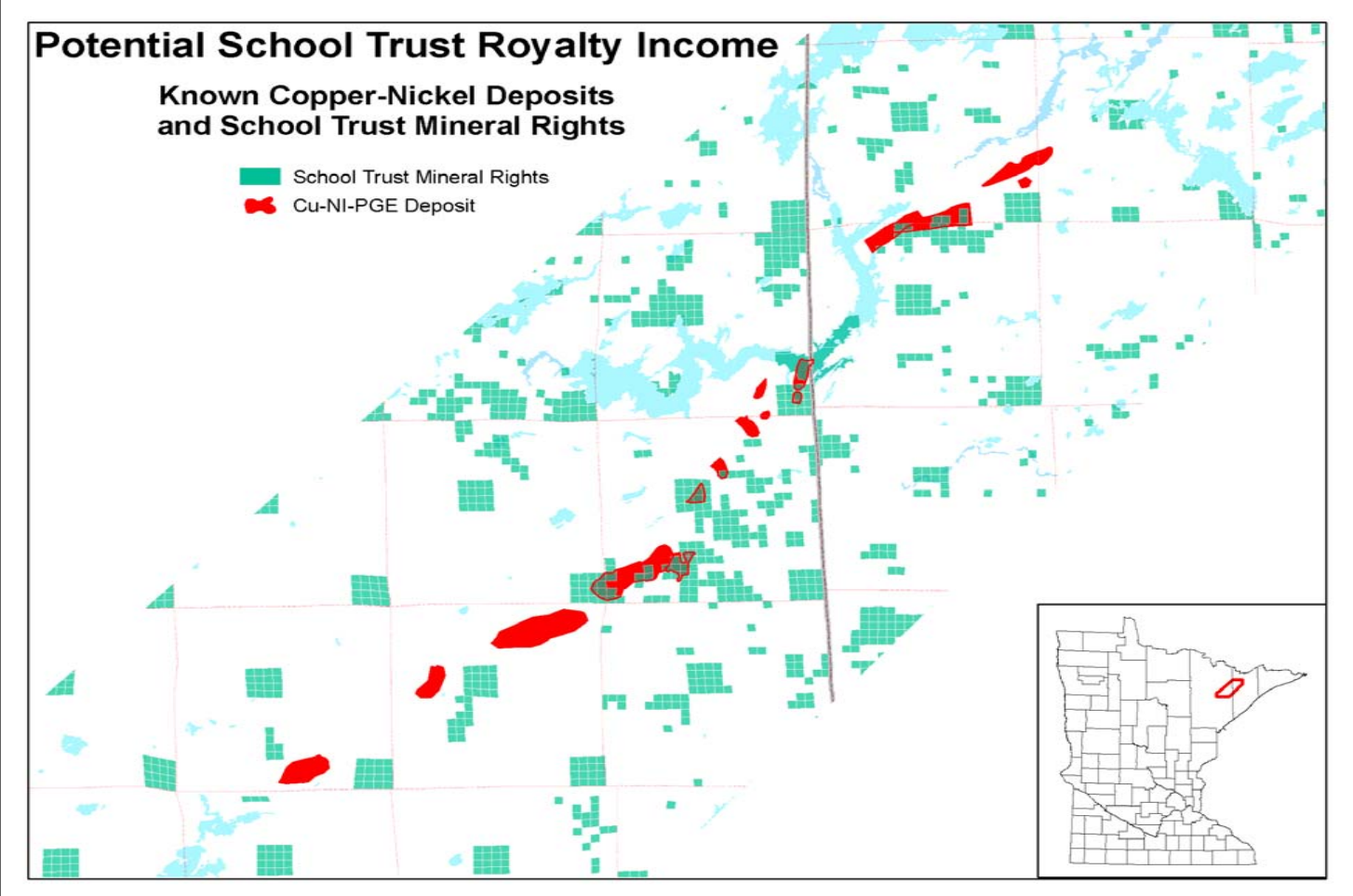
⇒ Result is that mineral management costs for school lands were:

- 20% for FY06
- 9.3% for FY07
- 8.4% for FY08

State Mineral Receipts and Mineral Management Funding



Non-ferrous minerals projects



Trust Fund Land Sale Revenue (by calendar year)

Year	Parcels Offered	Parcels Sold	Acreage	Net Revenue
2000	5	5	88.8	\$129,072
2001	10	10	239.4	\$229,601
2002	13	13	65.06	\$872,770*
2003	5	5	58.19	\$106,680
2004	7	7	92.69	\$173,220
2005	6	6	44.89	\$596,290**
2006	19	9	322.6	\$468,250
2007	28	15	379.13	\$542,510
2008	21	4	84.5	\$75,565

* Three Legislative Approved Lake Lots were sold accounting for 8.7 acres and \$514,340 of sales income.

** Includes a 1.13-acre parcel that sold for \$500,000 (\$102,530 over minimum).

Forestry Management

- ⇒ Revenue from timber sales along with fees from real estate leases, licenses, and easements are deposited into the Forestry Suspense Account.
- ⇒ The costs for managing trust lands are certified by the Department of Finance.
(Minnesota Statutes, sec. 16A.125)
- ⇒ Allowable costs are for protection, improvement, administration, and management of forest lands; and for construction and maintenance of forest roads.

More . . .

Forestry Management

- ↻ The general fund is reimbursed for protection and administration costs.
- ↻ The Forest Management Investment Account is reimbursed for improvements, management, and forest roads.
- ↻ For FY07 and FY08, revenues were down due to timber industry downturn and costs were up due to fire management.

Examples of Allowable Costs for Certification

Protection

Wildfire suppression
Aircraft operations
Fire prevention
Fuels management

Administration

Payroll
Facilities
Office and clerical

Management

Insect and disease control
Inventory
Timber sales
Leases and permits

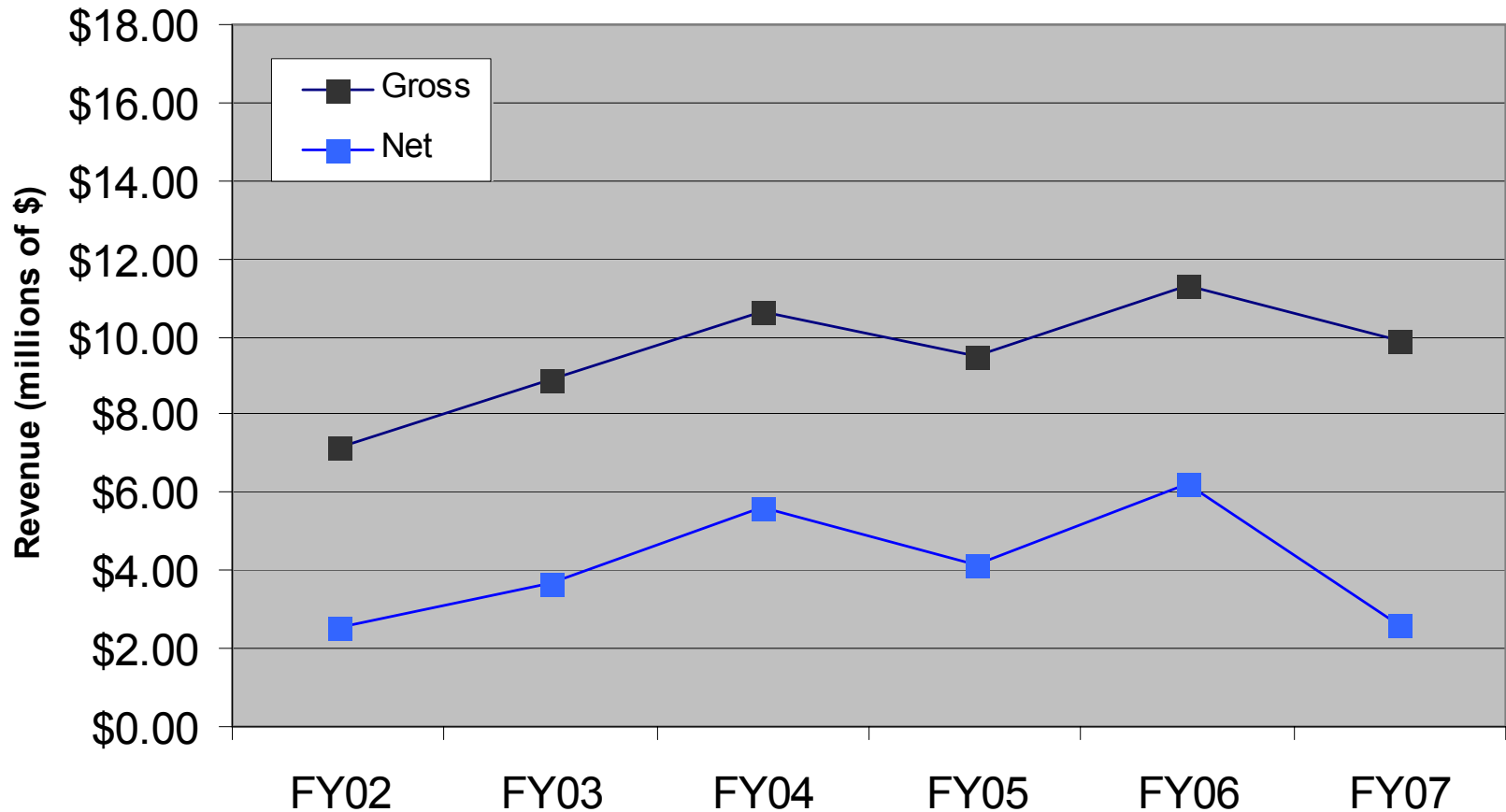
Forest Roads

Road construction and
maintenance
Signing
Culverts, bridges, erosion
control

Improvement

Site preparation
Reforestation
Timber stand improvement

Gross and net Forestry revenue, FY02-07



Trust management costs vs. Trust revenues

All Trust Fund lands require management; a small percentage of Trust Fund acres generates revenue in any year.

2.24 million acres Trust Land managed by Forestry	100%
Of that, 1.49 million acres capable of producing commercial quantities of timber	66%
29,000 acres reserved from harvest	2%
About 18,000 acres harvested in any year	~1%
	Of commercial forest



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.