

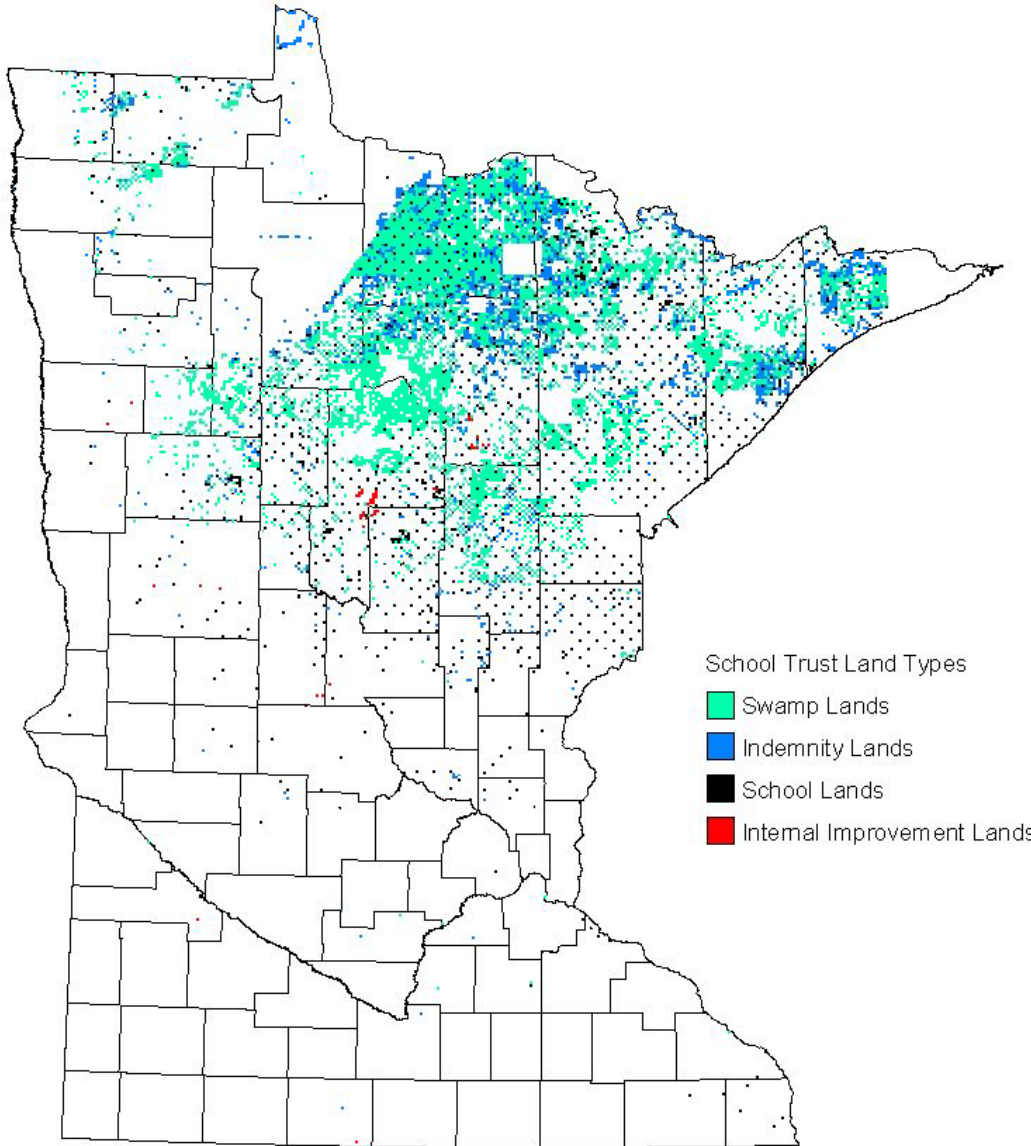
School Trust Lands Managed by the DNR

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School Trust Lands



School Trust Land Types

- Swamp Lands
- Indemnity Lands
- School Lands
- Internal Improvement 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.
Totalled 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 2009 |
|----------------------|------------------------|---------------------|
| School | 2,900,000 | 957,818 |
| Swampland | 4,706,503 | 1,550,818 |
| Internal Improvement | 500,000 | 6,508 |
| TOTAL | 8,106,503 | 2,515,144* |

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

Distribution of School Trust Land by County

| 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

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.

2008 Legislation

- **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.**

Minn. Stat., secs. 16A.06, subd. 10 and 84.027, subd. 18

2008 Legislation

- 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).

Minn. Stat., sec. 127A.30

2010 Legislation

- **2010 Legislation requires two reports from DNR:**
 - Information to evaluate effectiveness of DNR in managing school lands. Data shall include: a) description of school lands and land classification; b) policies and procedures in place to meet requirements of fiduciary responsibility; and c) financial information on current revenues and potential for maximization of those revenues. Report due July 15, 2010.

2010 Legislation

- **Second report is to analyze advantages and disadvantages of having funding mechanism for compensating permanent school fund for private and public use of school lands. Report due January 15, 2011.**

◦ *Laws of 2010, Chapter 361, Art. 4, Sec. 70*

2010 Legislative Proposals

- **Legislature also considered bill creating independent agency to oversee management of school trust lands. All staff, equipment and other assets associated with management would have been transferred from DNR.**
(H.F. 3475)
- **Legislature also considered having Legislative Coordinating Commission monitor executive branch on issues relating to management of school lands, including hiring of management analyst and other staff to monitor, analyze, provide oversight, and make recommendations.**
(H. F. 3833, 1st Engross., Art. 6, Secs. 1-3)

2011 Legislative Proposals

- Legislature is considering a bill that will modify the membership of the Permanent School Fund Advisory Committee. (H.F. 206)
- Legislature is considering a bill that will require the mineral management costs for school trust lands to be paid out of the general fund instead of the school trust mineral revenues payment. (H.F. 207)
- Legislature is considering a bill creating an independent agency to oversee management of school trust lands. (H.F. 435)

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.

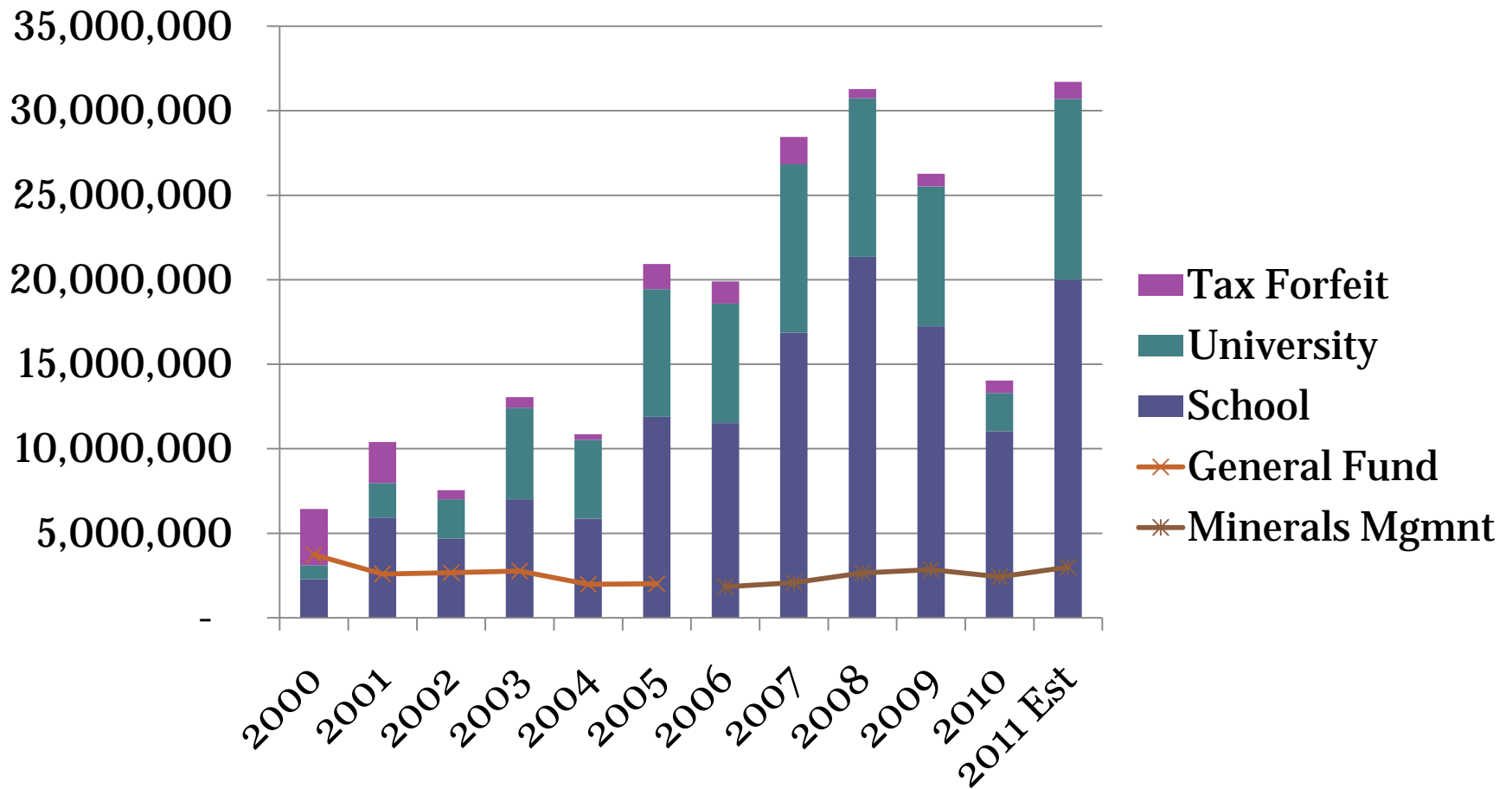
-- Minnesota Statutes, sec. 127A.31

Revenue to Corpus of PSF

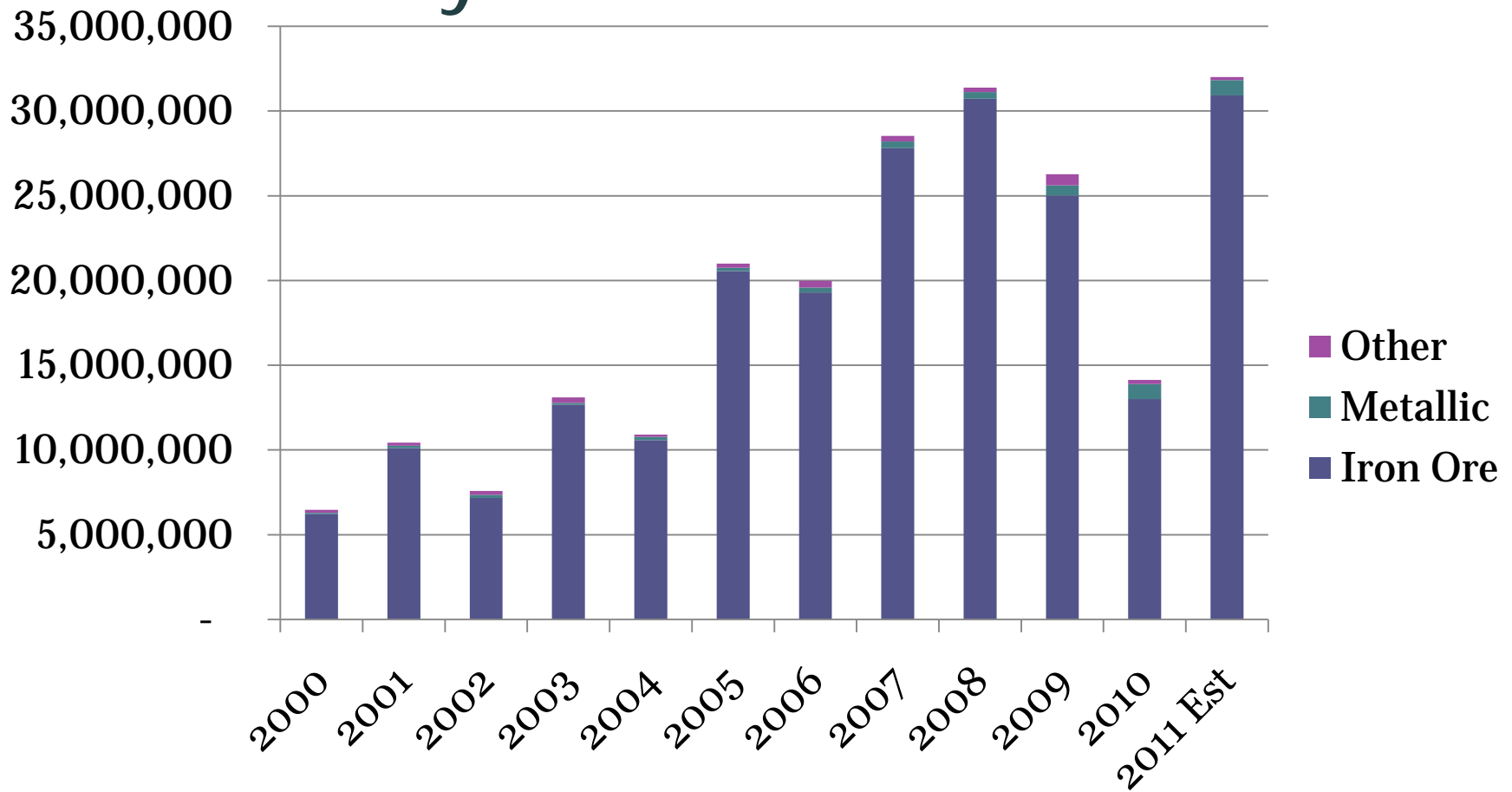
- Mineral Leases less portion deposited into Minerals Management Account and appropriated to DNR
- Land Sales
- Forest Campground fees; wild rice lease fees; and standing timber from land sale parcels
- Net Revenue from Forest Suspense Account

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

State Mineral Receipts by Fund



State Mineral Receipts by Commodity



Metallic Minerals

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

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

- 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. FY09 distribution is \$1.36 million. FY10 distribution is \$20,000.

- Result is that mineral management costs for school lands were:
 - 20% for FY06
 - 9.3% for FY07
 - 8.4% for FY08
 - 11.3% for FY09
 - 19.6% for FY10

Trust Fund Land Sale Revenue (by calendar year)

| Year | Parcels Offered | Parcels Sold | Acreage | Net Revenue |
|------|-----------------|--------------|---------|-------------|
| 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 |
| 2009 | 19 | 6 | 150.65 | \$312,860 |
| 2010 | 28 | 11 | 367.12 | \$317,115 |

* 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).

St. Mary's Lake Parcel

- ❑ The DNR is evaluating potential development and then selling a 26.5 acre parcel on St. Mary's Lake
- ❑ The parcel is south of Eveleth just west of the Eveleth-Virginia Municipal Airport
- ❑ The DNR is in the process of deciding on the development design
- ❑ The DNR is considering alternative ways to develop the property that are different from standard lakeshore development
- ❑ To assist in making this decision the DNR had a market analysis completed

St. Mary's Lake Parcel



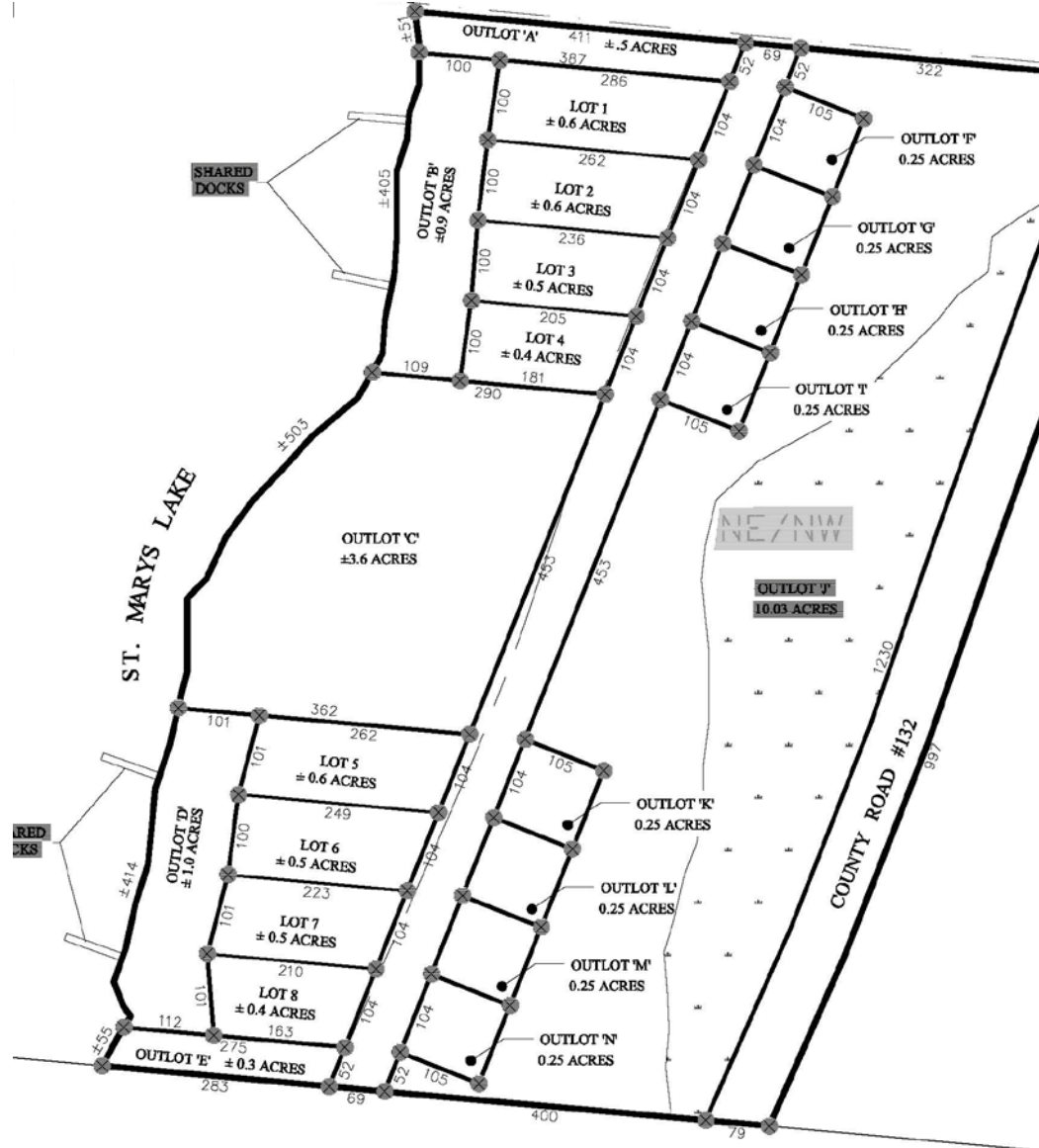
St. Mary's Lake Parcel



St. Mary's Lake Parcel



St. Mary's Lake Parcel



St. Mary's Lake Parcel

Estimated Revenues by Development Scenario

| Development Scenario | Gross Revenues | Estimated Development Costs | Net Revenues |
|-----------------------------|-----------------------|------------------------------------|---------------------|
| S1 | 575,000.00 | ----- | 575,000.00 |
| S2 | 1,240,000.00 | 294,220.00 | 945,780.00 |
| S3 | 1,359,600.00 | 359,777.00 | 999,823.00 |
| S4a | 799,200.00 | 275,005.00 | 524,195.00 |
| S4b | 1,040,000.00 | 275,005.00 | 764,996.00 |

M.S.16A.125 Transfer Certification Process

- M.S.16A.125 directs which costs are certified and how costs and revenues are distributed.
- Commissioner of MMB credits revenue from trust fund lands to the forest suspense account.
- Commissioner of MMB certifies costs that include:
 - protection,
 - improvement,
 - administration and
 - management of trust fund lands and
 - construction and improvement of forest roads

Examples of Allowable Costs for Certification

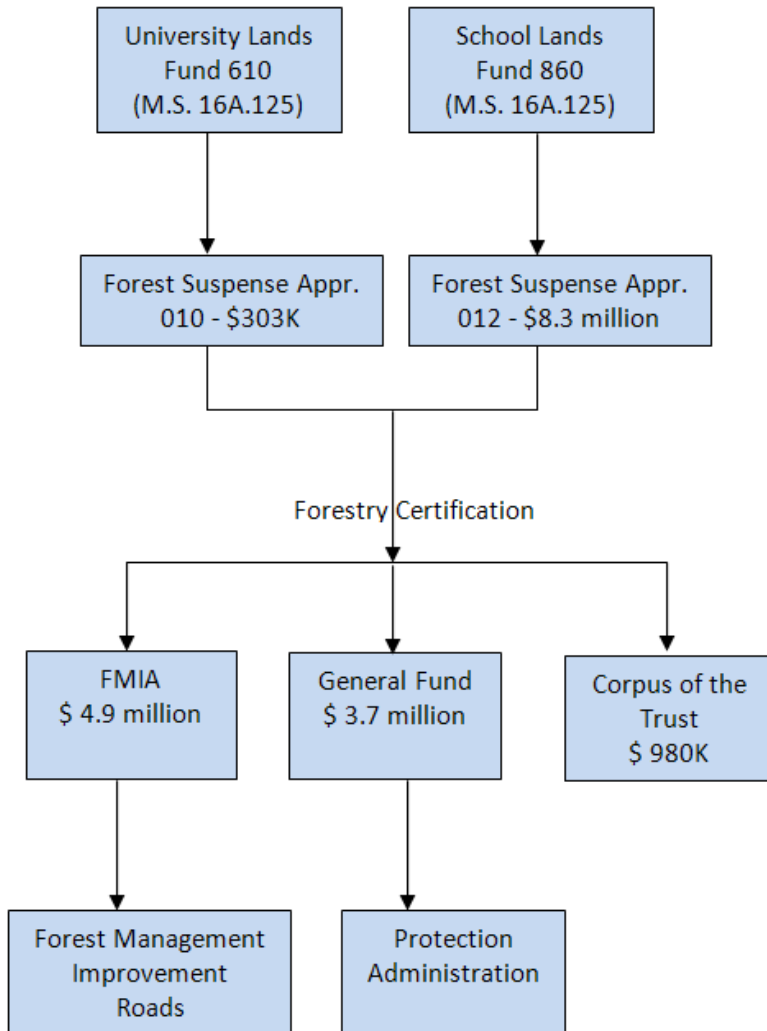


| <u>Protection</u> | <u>Forest Management</u> | <u>Improvement</u> | <u>Forest Roads</u> | <u>Administration</u> |
|-----------------------------|---------------------------------|---------------------------|-------------------------------------|-------------------------------|
| Wildfire suppression | Timber sales | Site Preparation | Road | Clerical Payroll |
| Fire pre-suppression | Leases & Permits | Reforestation | Construction & Maintenance | Facilities, Fleet & Equipment |
| Fire prevention | Forest Health | Timber Stand Improvement | Signing | |
| Fuels management & Firewise | Inventory | | Culverts, bridges & erosion control | |
| | Planning (SFRMP) | | | |
| \$ 2 million* | \$ 4.1 million* | \$ 0.8 million* | \$ 55,000* | \$ 1.8 million* |

*2010 certified cost report

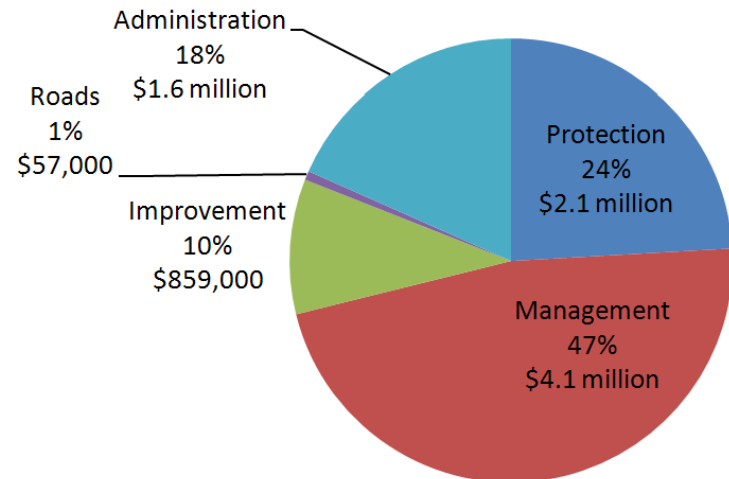
Forest Management Revenue

Trust Fund Lands



*2010 certified cost report (timber sales only)

- The **General Fund** is reimbursed for protection and administration costs.
- The **Forest Management Investment Account** is reimbursed for improvements, management, and forest roads.





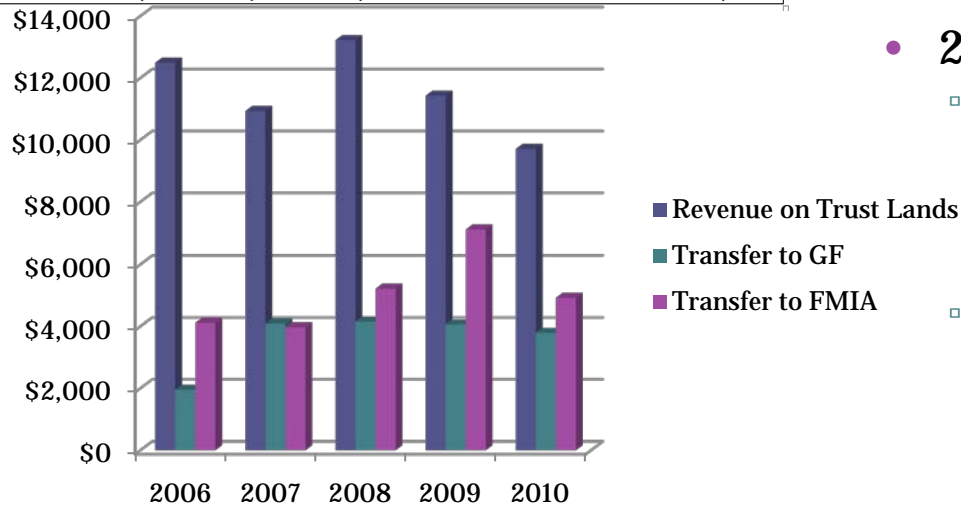
Summary of Revenues and Certified Costs

2006-2010

Gross revenues and Transfers to FMIA and General Fund - 2006-2010

Forest Suspense Account History
(in thousands)
FY 2006-2010

| | 2006 | 2007 | 2008 | 2009 | 2010 | 5 Yr Avg |
|------------------------|--------|--------|--------|--------|--------|----------|
| Total Timber Revenue | 25,518 | 22,582 | 25,315 | 19,561 | 18,946 | 22,384 |
| Revenue on Trust Lands | 12,497 | 10,937 | 13,226 | 11,430 | 9,713 | 11,561 |
| Transfer to GF | 1,954 | 4,094 | 4,154 | 4,067 | 3,793 | 3,612 |
| Transfer to FMIA | 4,120 | 3,971 | 5,221 | 7,110 | 4,926 | 5,070 |
| Transfer to Trust | 6,362 | 3,091 | 3,813 | 231 | 980 | 2,895 |

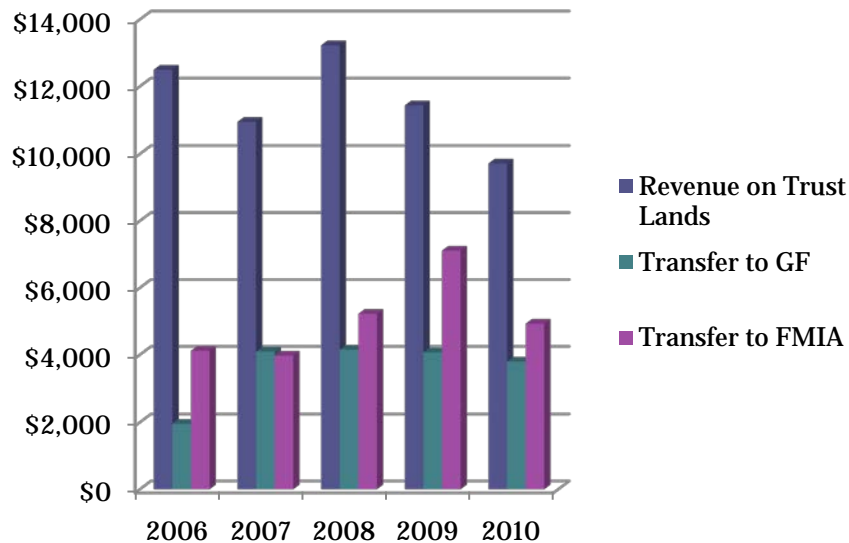


- 2009
 - Economic downturn reduced Trust Gross Revenue by \$2 million from 2008 levels.
- 2008 & 2009
 - Increased appropriations in FMIA for forest investment increased transfers to FMIA.
- 2010
 - Another \$2 million decrease in revenue from Trust Lands reduced transfers to FMIA and General Fund.
 - Transfers to the Trust are on the rise, despite a decrease in revenue.

Gross revenues and Transfers to FMIA and General Fund - 2009

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(in thousands)
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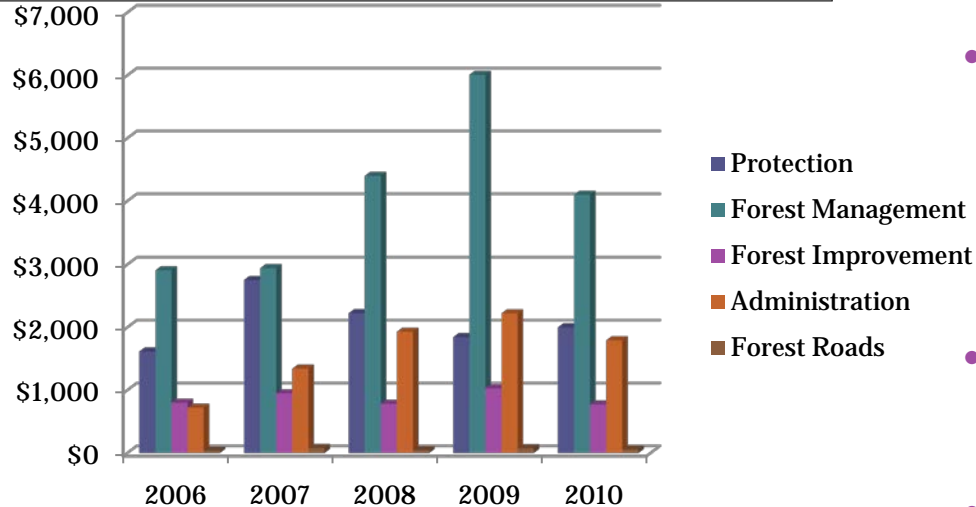


- **Why was so little transferred to the trust in 2009?**
 - Full cost accounting implemented in 2009.
 - Full impact of economic downturn occurred in 2009.
 - Increased investments were made in standing timber (FMIA).

Certified Costs 2006-2010

Forestry Certified Costs
(in thousands)
FY 2006-2010

| | 2006 | 2007 | 2008 | 2009 | 2010 | 5 Yr Avg |
|--------------------|--------------|--------------|--------------|---------------|--------------|--------------|
| Protection | 1,616 | 2,753 | 2,224 | 1,844 | 2,000 | 2,087 |
| Forest Management | 2,907 | 2,940 | 4,400 | 6,010 | 4,100 | 4,071 |
| Forest Improvement | 798 | 949 | 780 | 1,026 | 771 | 865 |
| Administration | 719 | 1,342 | 1,930 | 2,223 | 1,793 | 1,601 |
| Forest Roads | 34 | 81 | 41 | 74 | 55 | 57 |
| Total | 6,074 | 8,065 | 9,375 | 11,177 | 8,719 | 8,681 |



- 2007 – More fires = increased protection costs from previous years
- 2007 – Full cost accounting implementation begins. Cost coding revised capturing over \$½ million in administration costs not coded in 2006.
- 2008-09 – More funds appropriated, plus full cost accounting fully implemented, resulting in more costs certified in Forest Management & Administration
- 2009 & 2010 – Gross Revenues declined due to 30% drop in stumpage prices
- 2010 – All costs reduced to below 2008 levels

Costs in any one year are rarely directly proportional to revenues in the same year.

Forestry is a Long-Term Investment

- Revenue is dependent on economic factors that fluctuate over time.
- It is essential that investments be made to protect, renew and enhance the timber resource even during poor economic times.
- Investments we make today generate revenue 10 to 100 years in the future.

Distribution of PSF Revenue

- Principal is perpetual and inviolate.
- Board of Investment manages investment of PSF.
- Interest and dividends from investment distributed to public schools throughout the state.
- PSF income was offset against the state's general fund education appropriation.
- PSF income deduction from general education aid was repealed as to revenue for FY2010 and later.
- The PSF income is now distributed to schools as a separately identified payment with the other payments.

Land exchanges

The commissioner of natural resources shall exchange permanent school fund land as defined in the Minnesota Constitution, article XI, section 8, located in state parks, state recreation areas, wildlife management areas, scientific and natural areas, or state waysides or on lands managed by the commissioner as old growth stands, for other lands as allowed by the Minnesota Constitution, article XI, section 10, and section 94.343, subdivision 1, that are compatible with the goal of the permanent school fund lands in section 127A.31 **when, as a result of management practices applied to the permanent school fund lands and associated resources, revenue generation has been diminished or is prohibited and no alternative has been put into effect to compensate the permanent school fund for the income losses.**

Minn. Stat., sec. 92.121

Land Exchange Activities

- DNR has completed exchanges of school trust lands out of state parks and state recreation areas where revenue generation is diminished or prohibited.
- DNR is now focusing on old growth stands and wildlife management areas for future exchanges.
- The PSFAC and the Legislature are commencing focus on removing school trust lands out of the BWCAW through exchange or sale with the federal government.

2010 Legislation - BWCAW

- **The 2010 Legislature passed a resolution memorializing Congress and the Secretary of Agriculture to appropriate money and negotiate with State on sale and exchange of school trust lands within BWCAW. Resolution supports a hybrid model of both sale and exchange.**

• [Laws of 2010, Resolution 1](#)



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.

Thank you..

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