

School Trust Lands

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Lands & Minerals, DNR

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Status Update of 2011 Legislative Proposals



Status Update of 2011 Legislative Proposals

- HF207(HF934)/SF809
 - H.F. 207 is included in HF 934 which is the Omnibus Education Finance Bill. HF934 and SF 1030 are in conference committee.
- HF785/SF643(SF1030)
 - SF 643 is included in SF 1030 which is the Omnibus early childhood through grade 12 education policy provisions modifications and appropriations.

Status Update of 2011 Legislative Proposals

- HF1353(HF435)/SF1152 (SF810)
 - HF 1353 was heard at the Committee on Environment, Energy and Natural Resources Policy and Finance on April 14th and laid over.

BWCAW Exchange/Sale



2010 Legislation - BWCAW

- 86,000 acres of school trust lands are in the BWCAW and unable to generate revenue.
- 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.

BWCAW Exchange Work Group

- The Sale & Exchange and BWCAW Subcommittee of the PSFAC recommended the formation of a work group of potential stakeholders to work on the selection of exchange parcels.
- The work group met to begin the discussion of the selection of exchange parcels.
- For the past few months the DNR and USFS have been working to achieve a list of lands acceptable as candidates for exchange.

BWCAW Exchange Work Group

- DNR staff in Forestry and Lands and Minerals divisions have continued to work in collaboration to review in excess of 100,000 acres of USFS lands.
- The DNR and USFS have agreed on over 41,000 acres as candidates for exchange.
- The work group is scheduled to meet on May 11th to discuss the selected parcels and to discuss next steps.
- The selection of over 41,000 acres is a big step in the right direction, but a lot of work is still needed to complete the exchange and sale.

Next Steps

- Get reassurance that Minnesota legislators are willing to accept an exchange and sale.
- Obtain Minnesota Congressional Delegation support.
- Meet with the BWCAW Exchange Work Group to finalize the parcels for exchange.

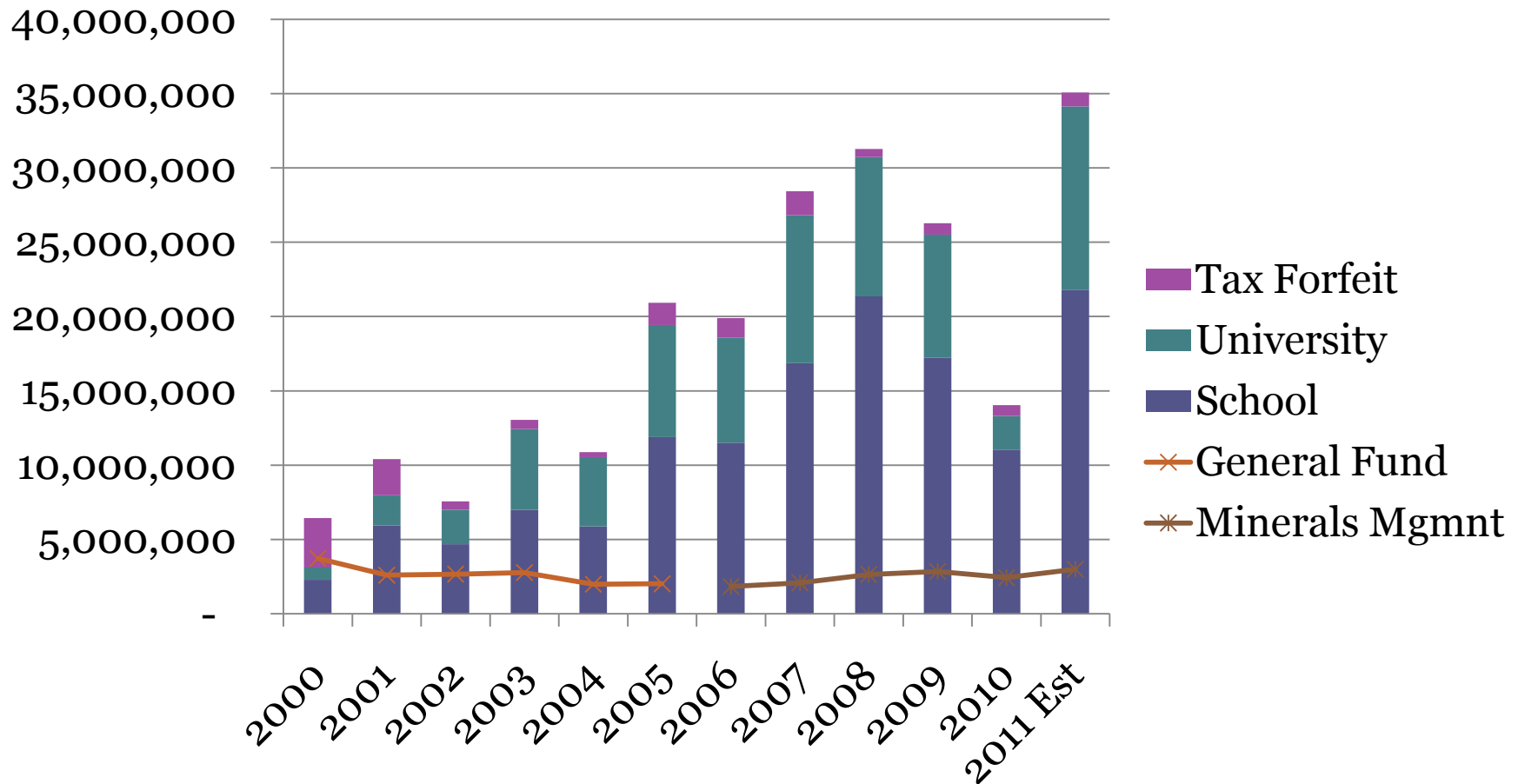
Next Steps

- DNR and USFS meetings to discuss appraisal methods.
- Determine the mechanics of the exchange and sale.
- Develop a legislative package to address funding (staff costs, appraisals, abstracts, Attorney General title review, others), appraisal methods, condemnation, title review, direct sale

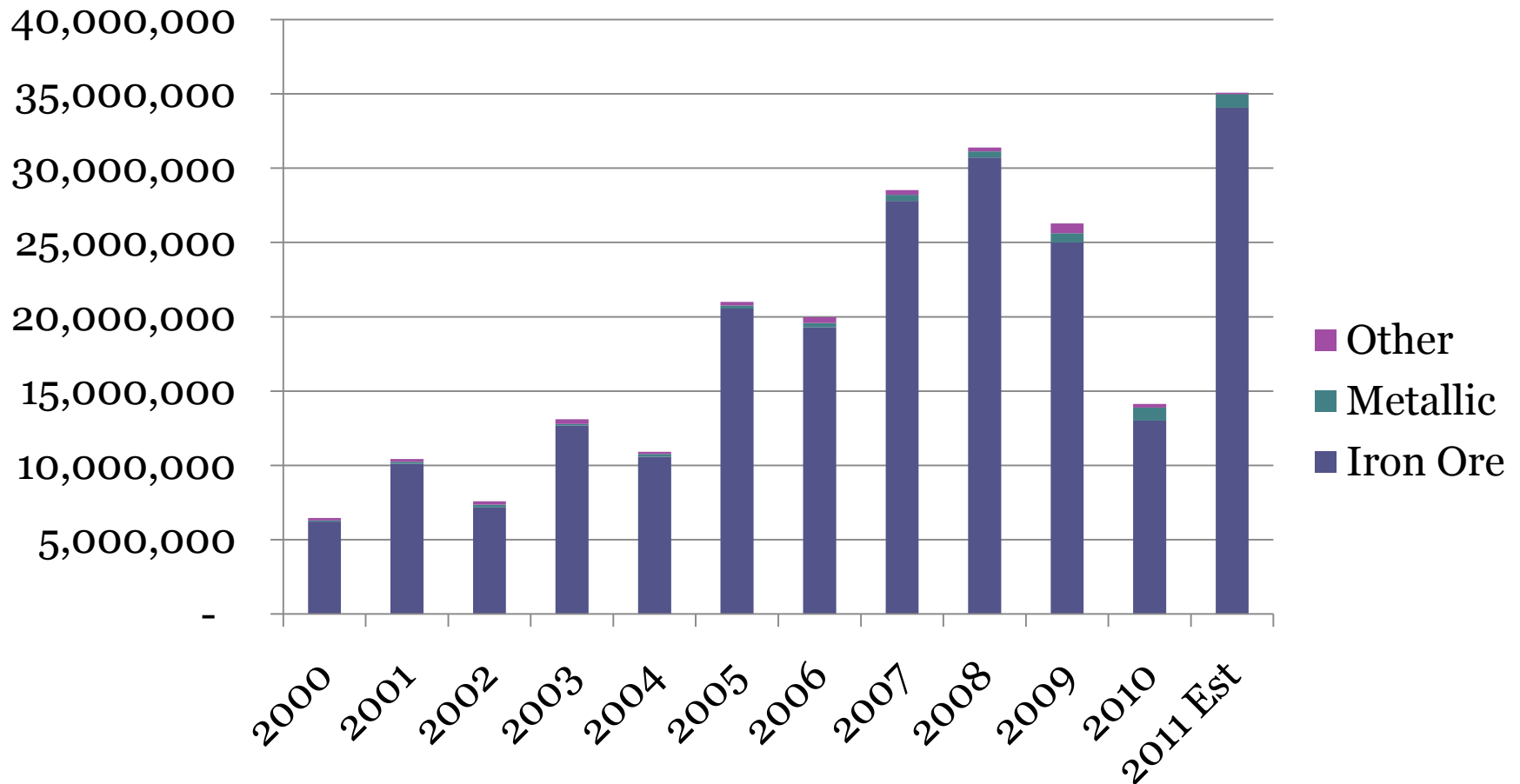
Minerals Management



State Mineral Receipts by Fund



State Mineral Receipts by Commodity



State Mineral Receipts by Commodity

Other:

M-Leases

R-Leases

Stockpile Leases

Peat

Industrial Minerals

Iron Ore/Taconite

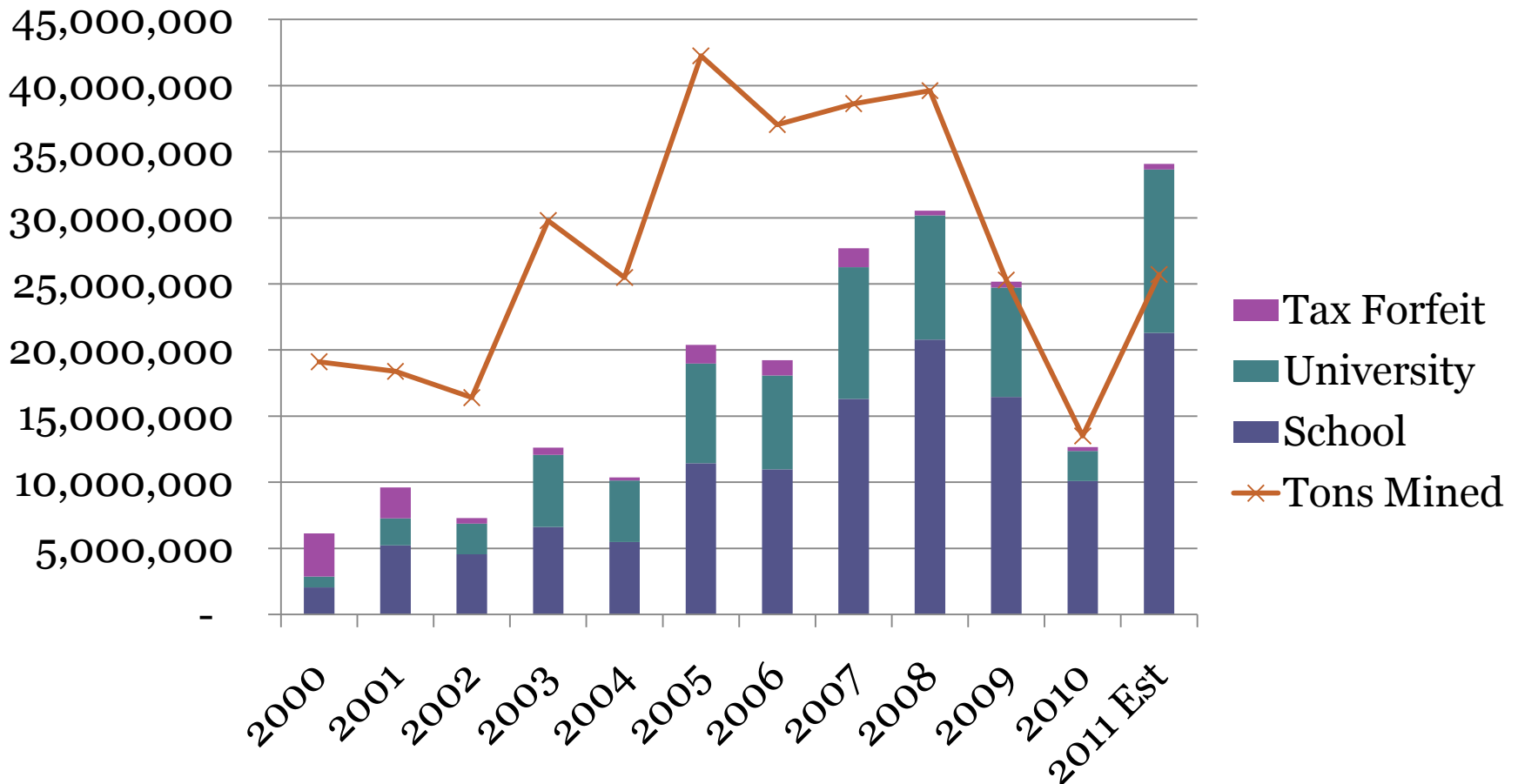
Iron Ore/Taconite

- ❑ Iron Ore/Taconite revenues for FY2010 to the school trust were down from recent years due to the global economic downturn
- ❑ However, iron ore prices have rebounded with increasing demand for iron ore and steel production (most notably from China)
- ❑ The FY2011 and FY2012 gross revenues from iron ore on school trust lands are currently forecasted to be approximately \$21 million and \$27 million respectively

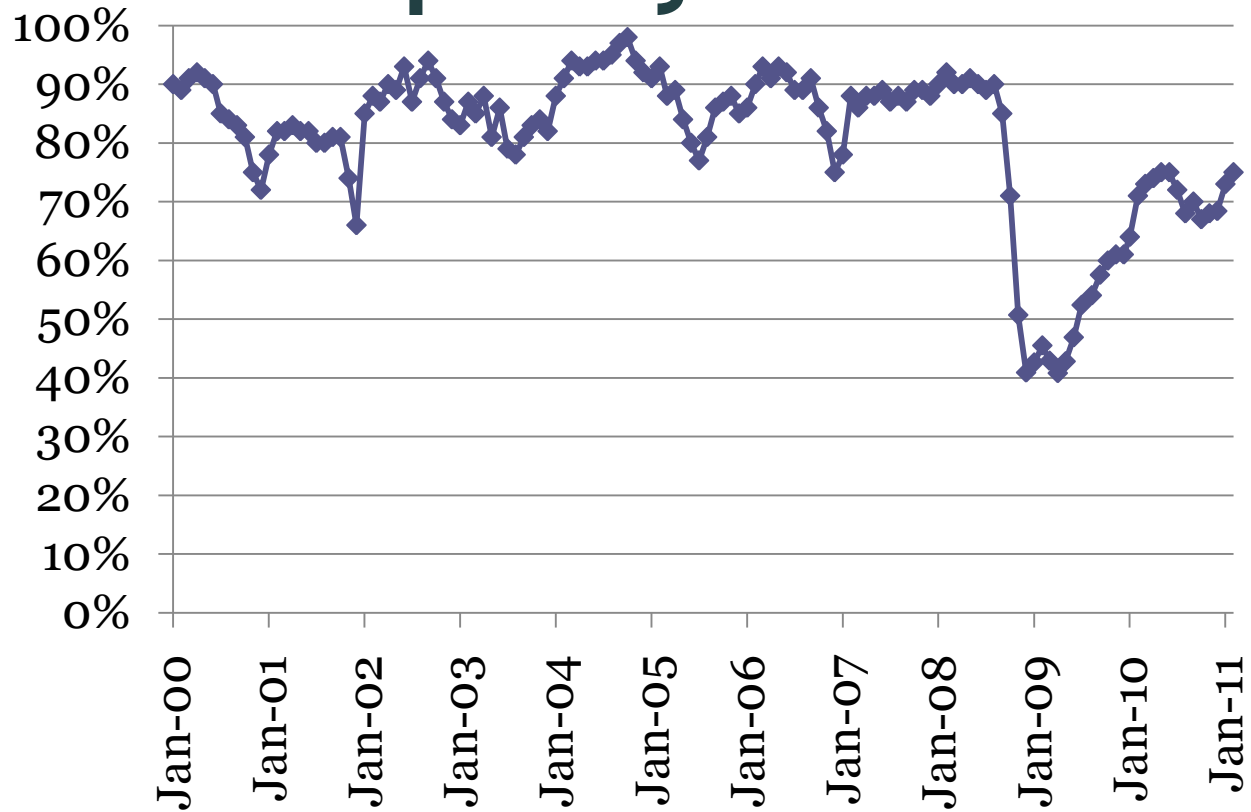
Factors Effecting State Iron Ore Royalty Income

- Tons mined?
- Royalty rate?

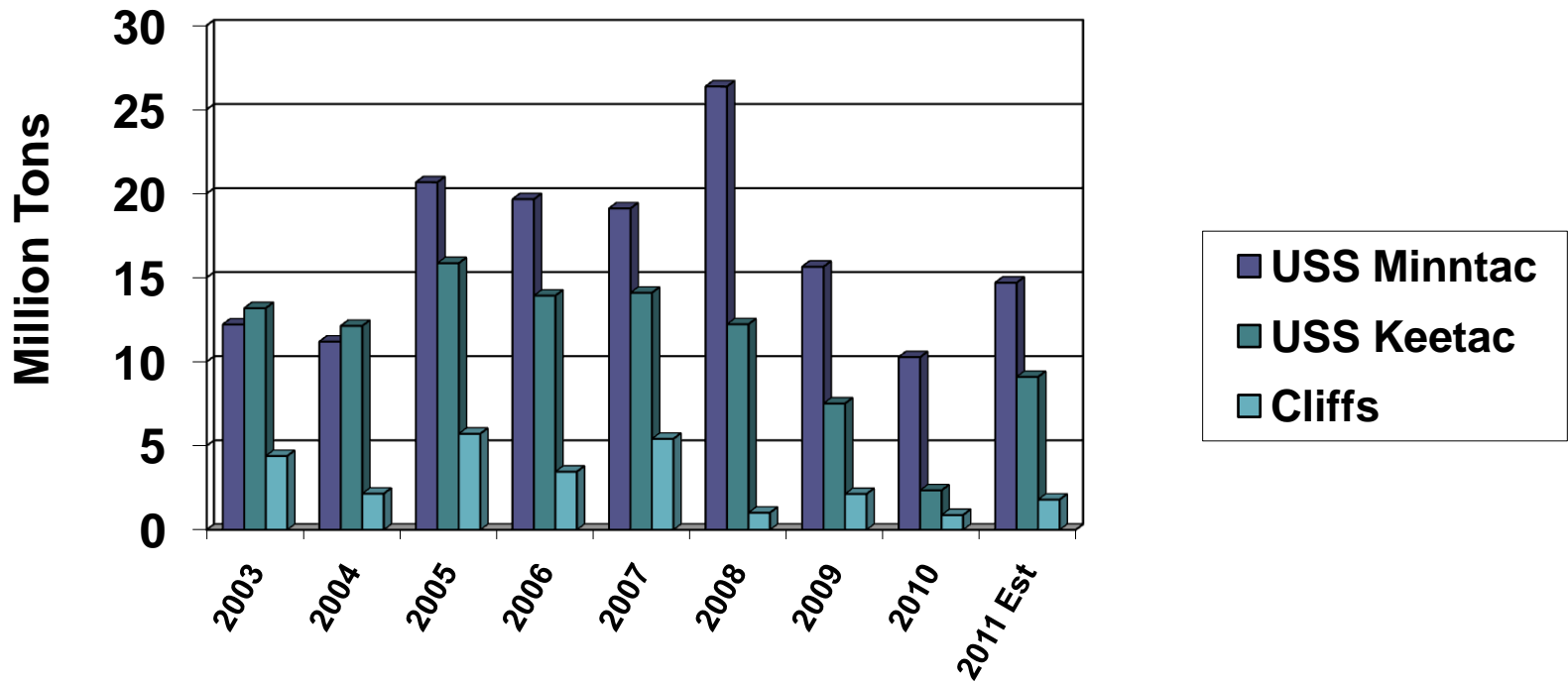
State Iron Ore Receipts and Tons Mined



USA Steel Capacity Utilization



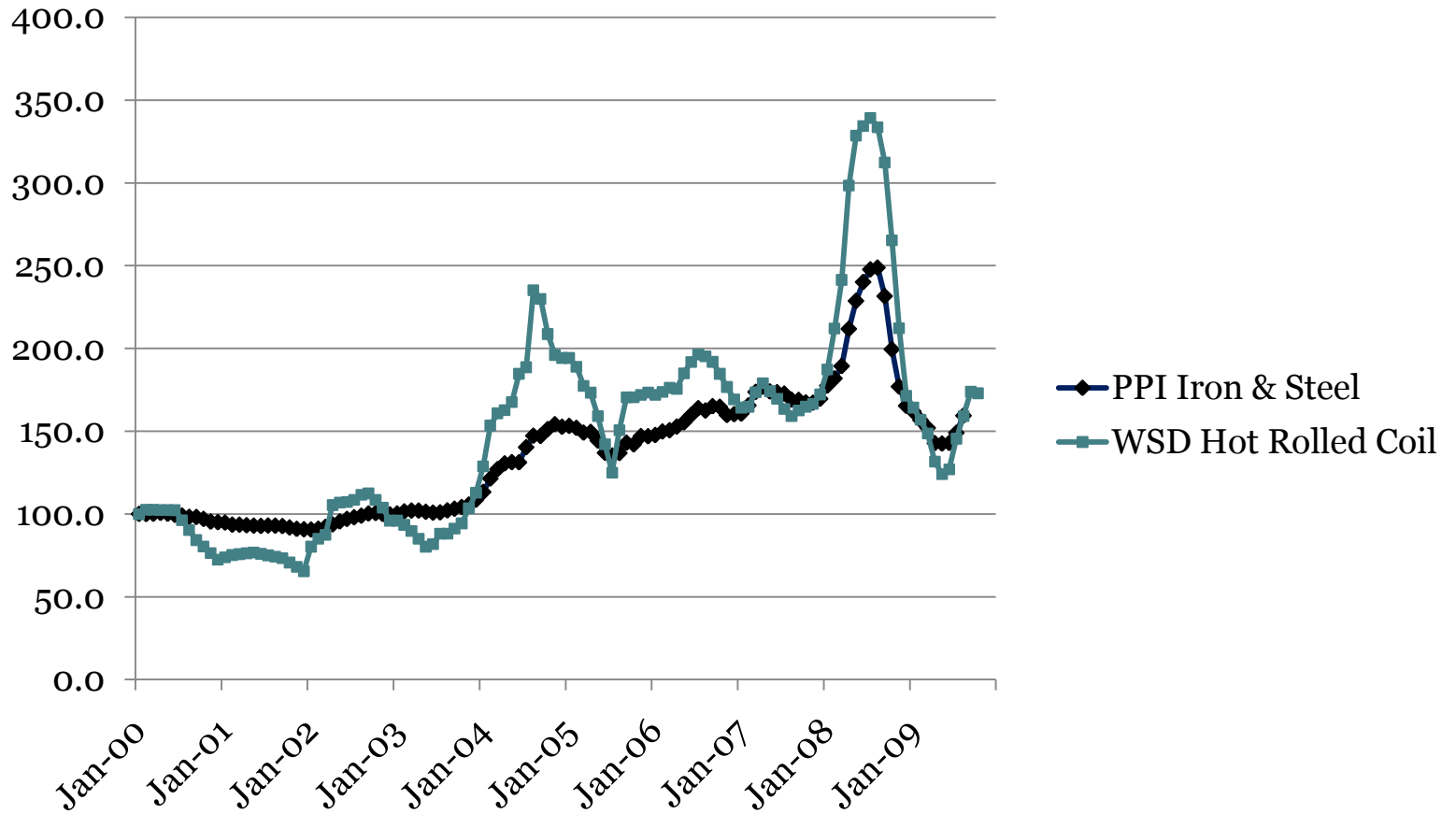
Who's Mining State Ore



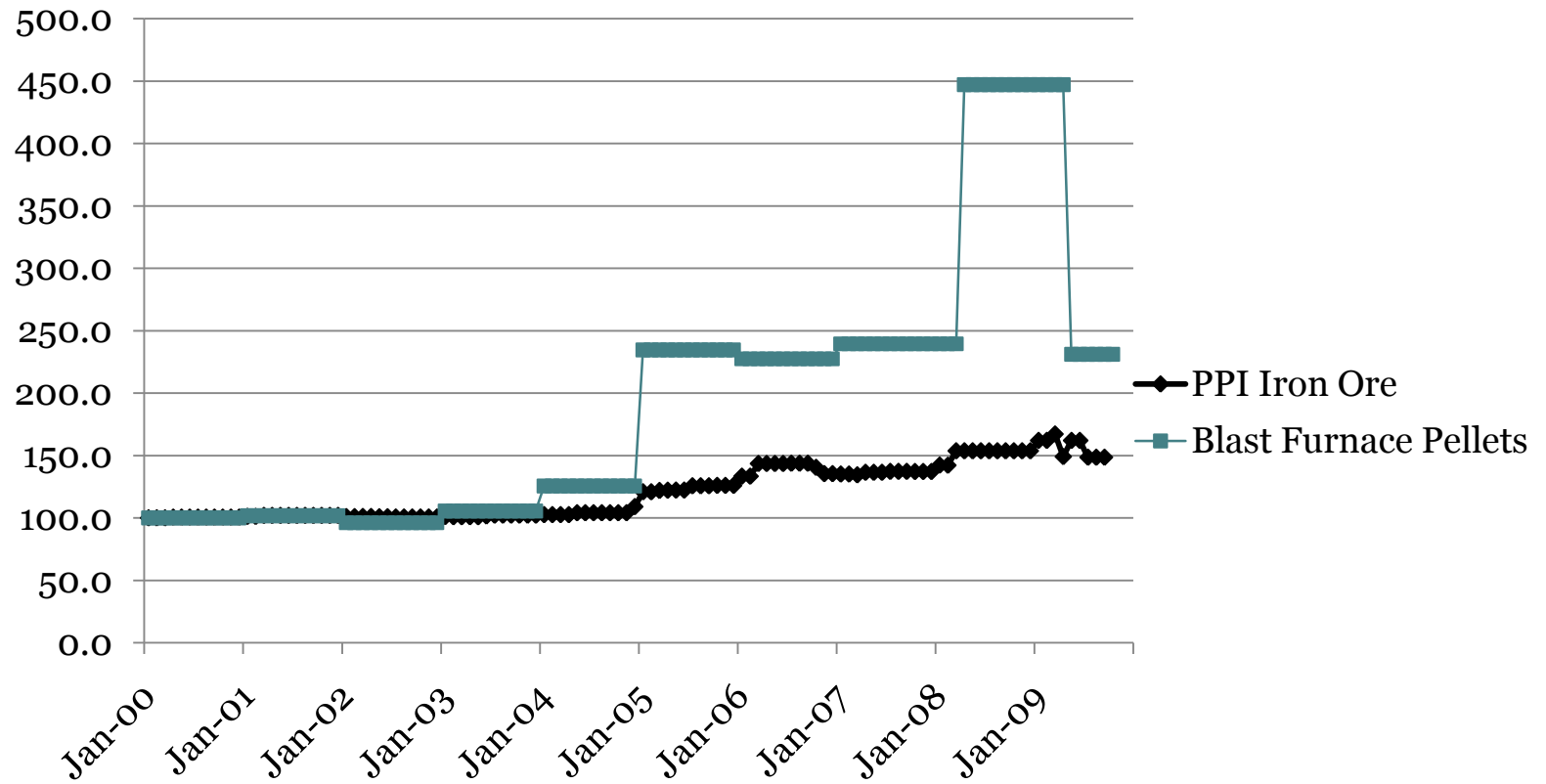
Royalty Rates

- Base Price
- Escalation
 - 50% Iron & steel products
 - 50% Iron ore

Iron & Steel Indices



Iron Ore Indices



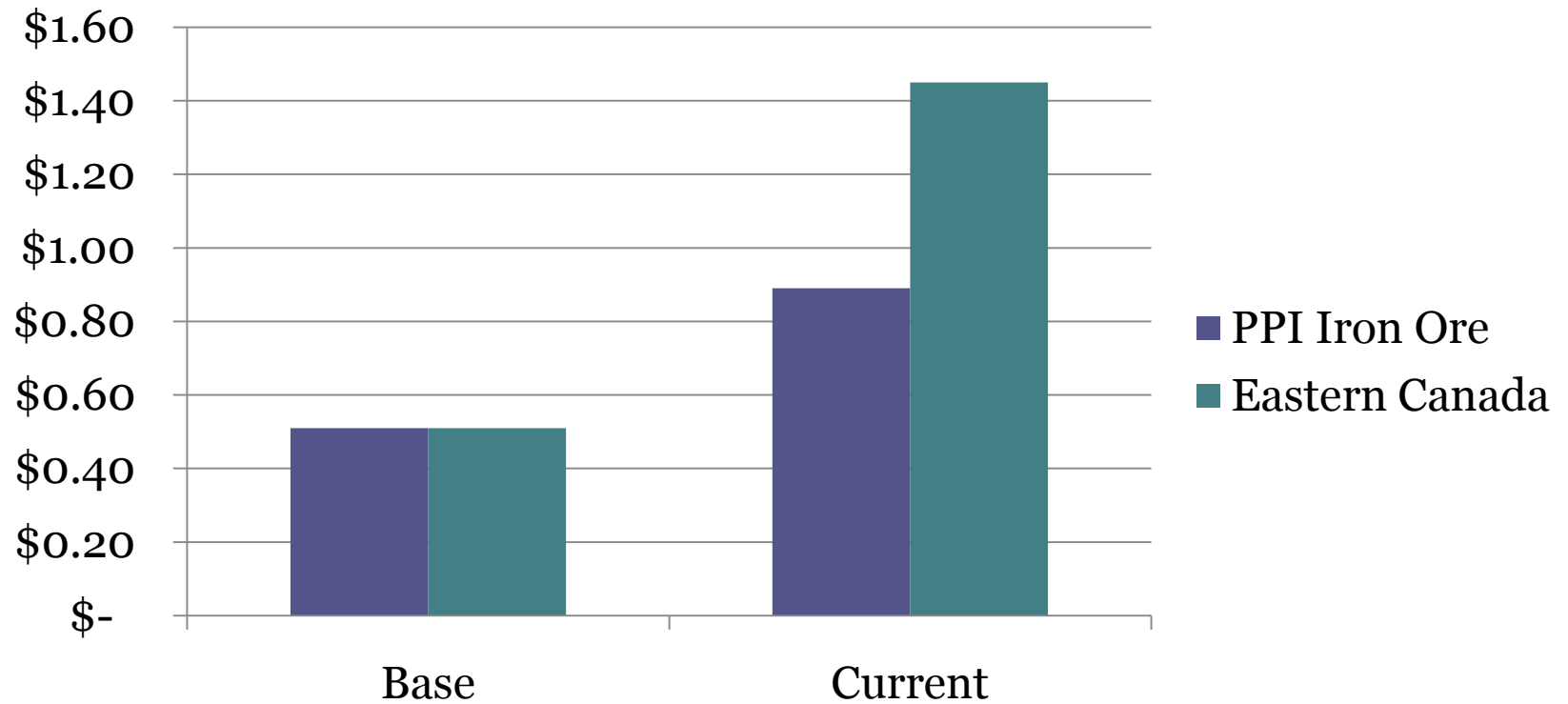
State's Traditional Escalation

	Base Jan-1998	Current 1 st Qtr 2011
Escalation 50% each		
PPI Iron Ore	92.7	150.6
PPI Iron & Steel	127.4	239.4
Royalty per ton	\$0.51	\$0.89

State's New Iron Ore Escalation

	Base Jan-1998	Current 1 st Qtr 2011
Escalation 50% each		
Eastern CN Index	40.00	152.87
PPI Iron & Steel	127.4	239.4
Royalty per ton	\$0.51	\$1.45

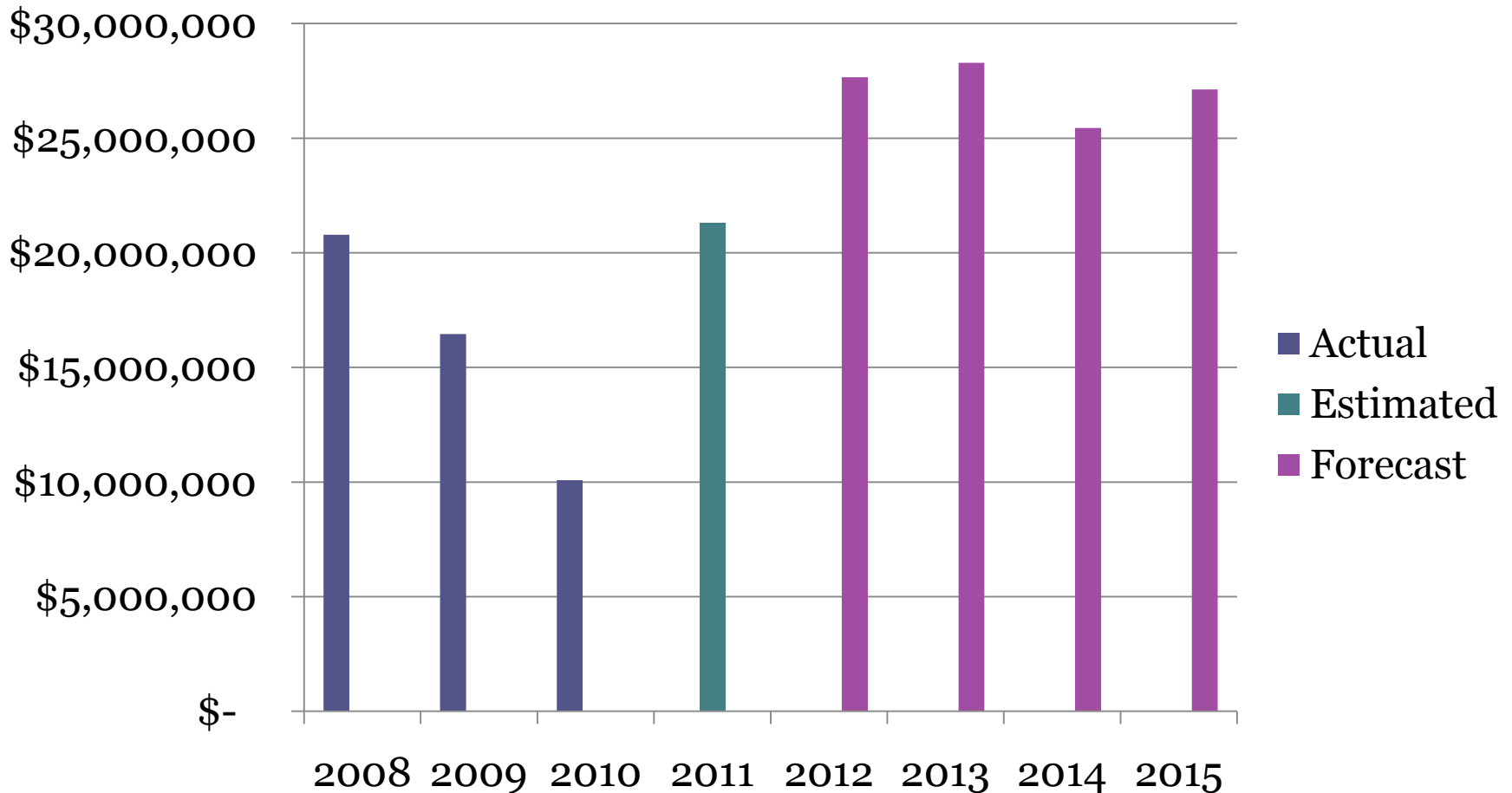
Royalty per Ton



New Iron Ore Escalation

Company	Mine	State Leases	New Escalation Approved
ArcelorMittal	Minorca	1	September 2008
US Steel	Keetac	6	September 2008
US Steel	Minntac	39	September 2008
US Steel	Keetac	2	March 2009
Essar Steel	Minnesota	27	September 2009
Cliffs Natural Resources	Northshore	3	December 2009

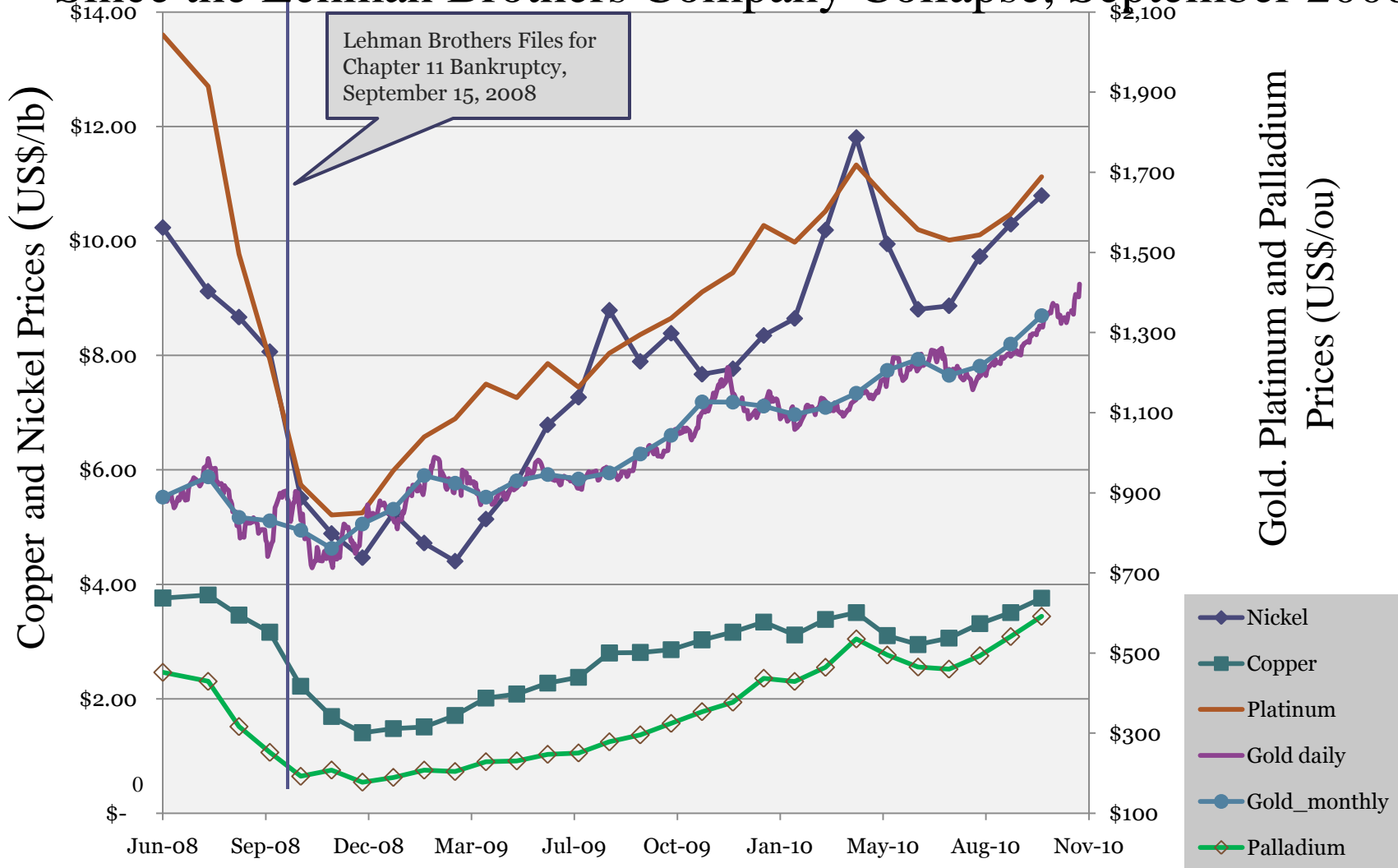
School Trust Gross Iron Ore Revenue



Metallic Minerals

Copper, Nickel, Gold, Platinum and Palladium Prices

Since the Lehman Brothers Company Collapse, September 2008



Data Sources: **London Metals Exchange** prices, as reported by:
 International Monetary Fund (Cu, Ni)
 Johnson Matthey (Pt, Pd)
 World Gold Council (Au)

Chart last updated on **November 10, 2010** by **MnDNR**
 • Monthly averages include October, 2010 data
 • Daily gold prices up to LME close, Nov 9, 2010

Metallic Minerals

What's driving exploration for Metallic Minerals in Minnesota?

- ❑ Global Demand from Asia
- ❑ Metal Prices
- ❑ Investors Desire for Hard Assets
- ❑ Quantitative Easing
- ❑ Promising Geological Terranes

Metallic Minerals

- DNR has continued to lease school trust lands for Metallic Minerals (eg. Copper, Nickel, Gold, Platinum, Palladium etc.)
- The of number of total state leases and leased acres has continued to increase over the past six years

Metallic Minerals

Year	Leases	Acres
2005	143	46,774
2006	194	67,050
2007	210	69,309
2008	262	84,506
2009	279	90,308
2010	321	105,019
2011	406	143,029

*Leases on January 1st of each year.


Metallic Minerals

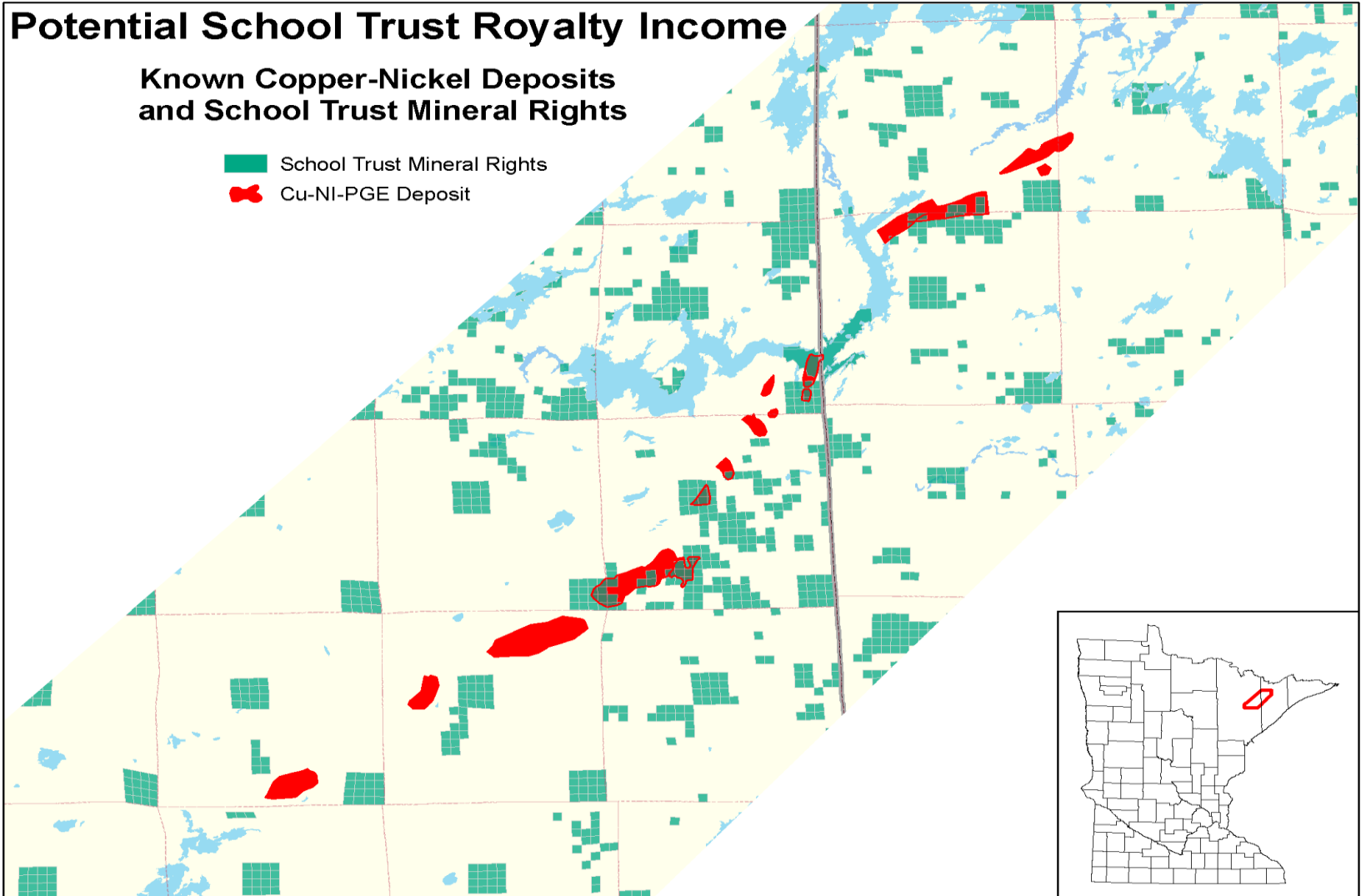
- ❑ Over 9,000 acres of school trust minerals were bid on at the April 28, 2011 Mineral Lease Sale
- ❑ Approximately 46,000 acres of school trust lands are currently under a metallic mineral lease (approx. 31% of state acres leased)
- ❑ Metallic mineral mining on school trust land is believed to be the 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 lands over the 20 to 25 year operation of a mine.

Non-ferrous minerals projects

Potential School Trust Royalty Income

Known Copper-Nickel Deposits and School Trust Mineral Rights

-  School Trust Mineral Rights
-  Cu-NI-PGE Deposit



Minerals Management

Mineral management activities include the following:

- Drafting mineral leases and negotiating lease rates
- Maintaining mineral rights information
- Monitoring global commodity demand and metal markets
- Determining ore quality

(continued)

Minerals Management

- ❑ Conducting field inspections
- ❑ Developing and presenting technical information on mineral resources
- ❑ Work to encourage the discovery of new mineral deposits
- ❑ Protect mineral assets during all state surface land and mineral land transactions

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

- 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

St. Mary's Lake Parcel



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 and would like the input of the PSFAC
- ❑ 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

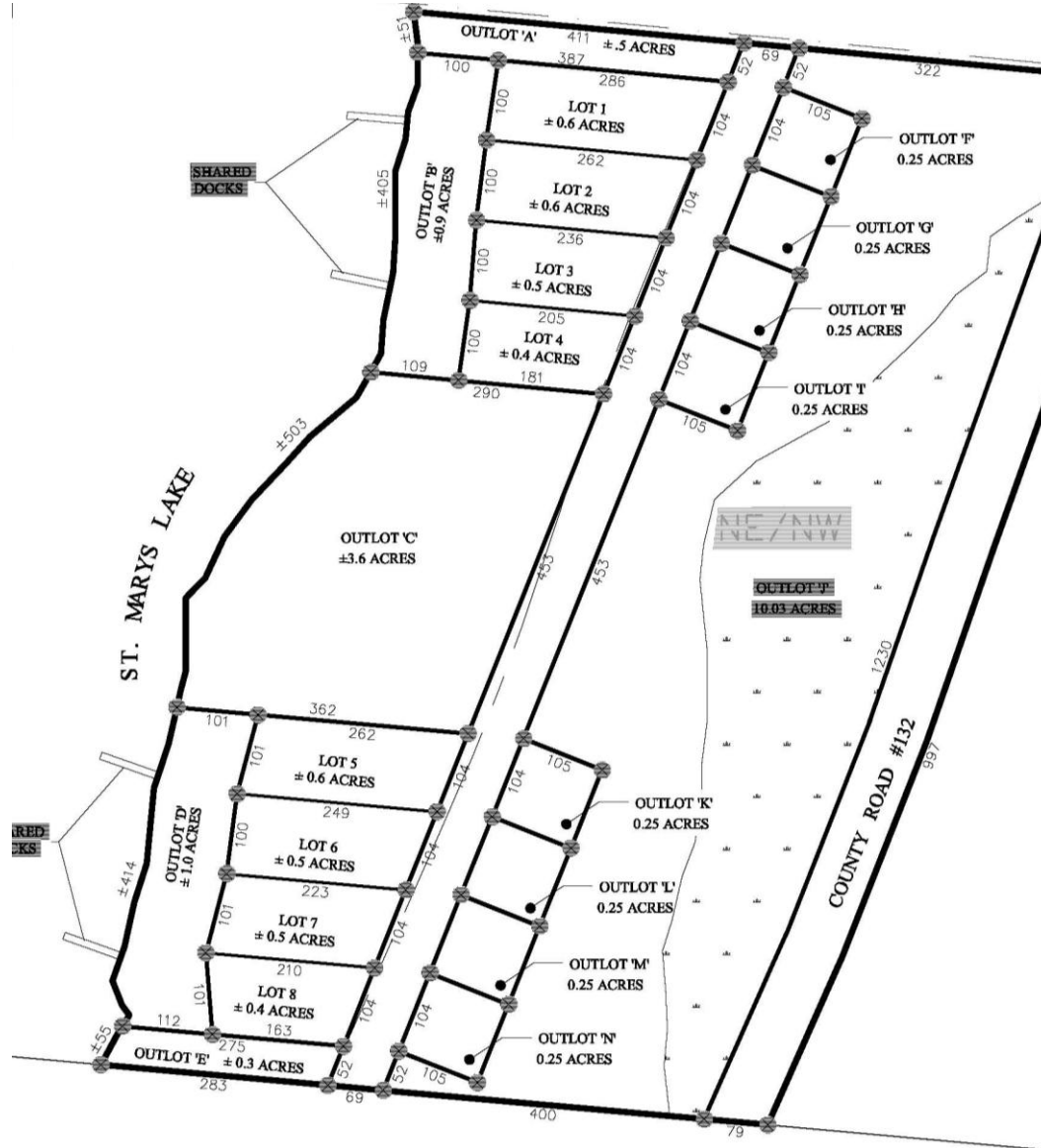
St. Mary's Lake Parcel



St. Mary's Lake Parcel



St. Mary's Lake Parcel



St. Mary's Lake Parcel

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

Thank you..

Contact information:

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