

Forest Management on School Trust Lands

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Forest Management on School Trust Lands

- Land Base
- Forest Management Activities
- Economics
- Trust Cost Certification

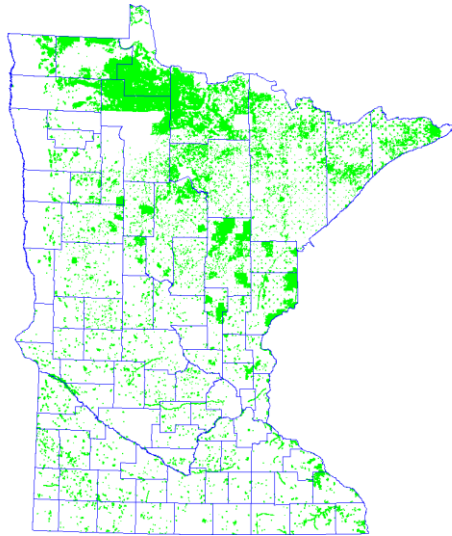


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State Land Acres Subject to Forest Management

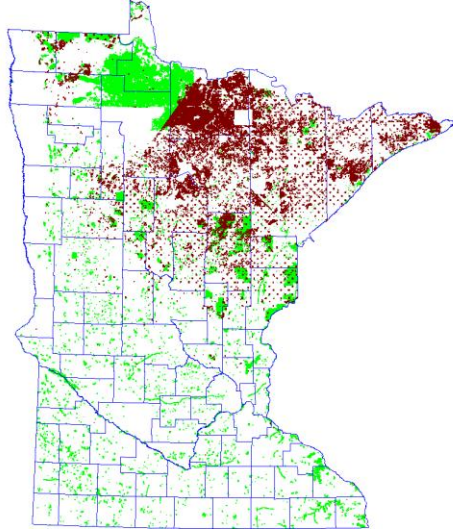


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2.4 Million Acres Trust Land



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Land is in Growing Stock

Investment Value

Ongoing Costs Related to Growing Trees:

Protection

Road Access

Forest
Enhancement

98% of acreage

Revenue

Costs related to Harvesting:

Harvest Administration

Billing Services



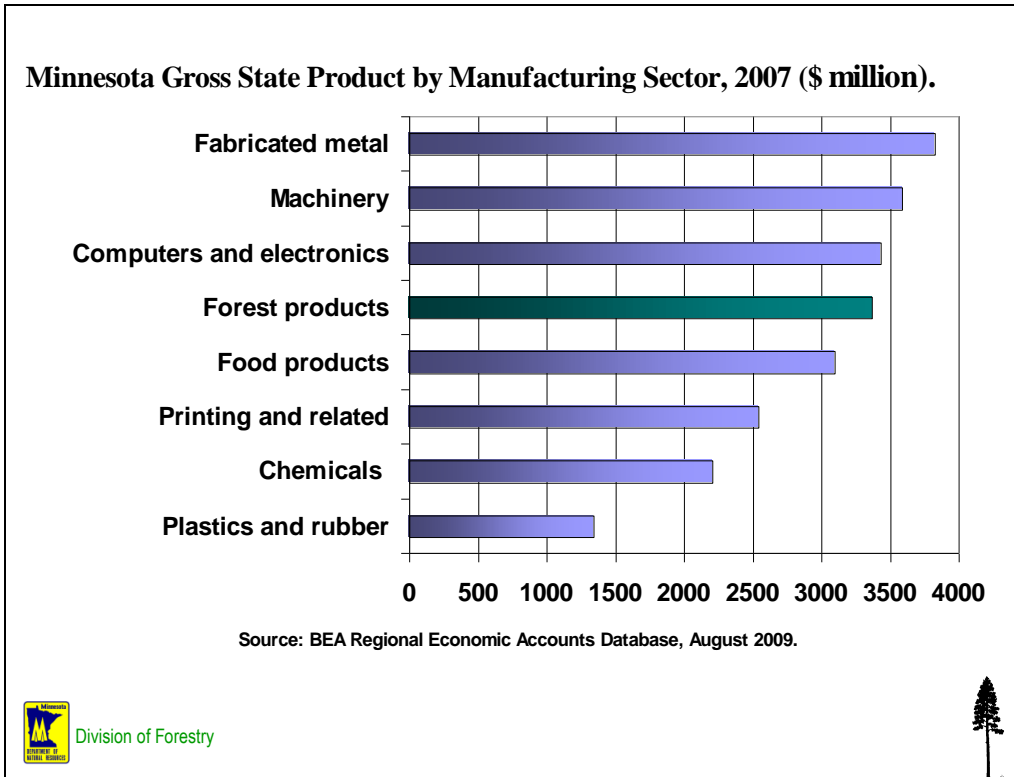
<2% of acreage



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Economic Effect of State Land Timber Harvest - 2008

Income and Sales Taxes Paid to General Fund	\$47.9 million
Employment Effect	32,700 jobs
Output Effect	\$3.4 billion
Value Added Effect	\$1.7 billion

Data source taxes paid: DEED/DNR. 2004. Economic Impact of State Stumpage.
Data sources other: UMD, Bureau of Business and Economic Research. 2008. Economic Impact of Declines in Forestry-Related Industries in Minnesota...



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Economic downturn affects demand for forest products

- **National Trend**

- Housing starts down 75% from peak
- 79 U.S. paper machines permanently shut; production down 30%
- 27 North American OSB plants shut (13 U.S.); production off 46%
- 127 North American softwood sawmills shut (64 U.S.); output down 40%
- Hardwood lumber output down 28%

- **Minnesota Effects**

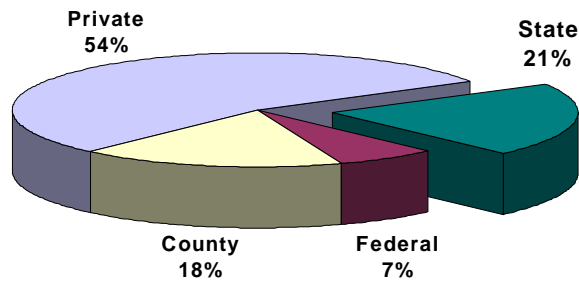
- Minnesota wood products manufacturing employment down 33%
- 3.8 million cords sold 2005 >>>2.7 million cords sold 2008



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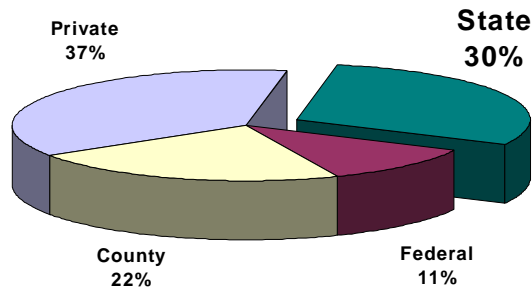


State Stumpage Offered 2003 = 766,000 cords



State Stumpage Offered 2008 = 1,194,000 cords

- **State stumpage market share increased from 21% to 30%**



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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



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Auditor Direction to Certification

- 1997 Office of Legislative Auditor (OLA) found the methods and process “to be reasonable” – recommendation to consider alternatives to allocating costs for fire protection and recreation ➡ Recreation costs dropped
- 2005-2008 Compliance Audit from OLA recommended DNR to “adjust allocations to more reasonably approximate the actual cost of central support services to dedicated funding sources” ➡ True cost of support services certified

1998 – OLA Program Evaluation Division School Trust Land Study (1998)

2005-2008 – OLA Financial audit Division Report – Department of Natural Resources
Internal Control and Compliance Audit July 1, 2005 through April 30, 2008 (Report 09-02)



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Forest Management Activity Includes Work in the Following Areas:



Protection



Wildlife Habitat



Recreation



Timber
Management



Forest Roads



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Forestry costs not included in Certification

Non-revenue related costs such as:

- Private Forest Management Assistance
- Urban and Community Forestry
- Forest Recreation



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Examples of Certification Costs



<u>Protection</u>	<u>Forest Management</u>	<u>Improvement</u>	<u>Forest Roads</u>	<u>Administration</u>
Wildfire suppression	Timber sales	Site Preparation	Road Construction & Maintenance	Clerical Payroll
Fire suppression	Leases & Permits	Reforestation	Signing	Facilities, Fleet & Equipment
Fire prevention	Forest Health	Timber Stand Improvement	Culverts, bridges & erosion control	
Fuels management & Firewise	Inventory			



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General Fund & FMIA Cost Accounting

• Total DNR Forestry Costs	\$50 million
• Less non-revenue related	- 8 million
• Revenue related costs	42 million
• Costs certified against Trust land	\$11 million

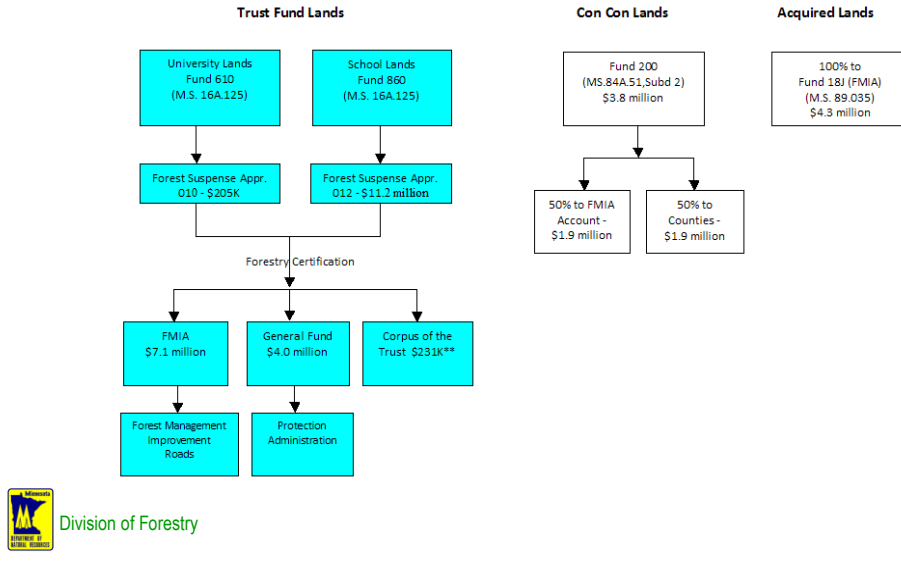


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Revenue

TIMBER SALES *
Fiscal Year 2009
(Transfers into 2010)



Forest Suspense Account History							
(in thousands)							
FY 2004-2009							
	2004	2005	2006	2007	2008	2009	5 Yr Avg
Total Timber Sales	20,635	20,930	25,518	22,582	25,315	19,561	22,781
Sales on Trust Lands	11,640	10,483	12,497	10,937	13,226	11,430	11,715
Transfer to GF	5,979	1,796	1,954	4,094	4,154	4,067	3,213
Transfer to FMIA	-	4,450	4,120	3,971	5,221	7,110	4,974
Transfer to Trust	5,816	4,362	6,362	3,091	3,813	231	3,572

The purpose of this table is provide a historical summary of revenue generated on trust lands. It also illustrates the transfers to the General Fund and the Forest Management Investment Account once costs are certified. The balance is then transferred to the corpus of the trust.

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Forestry Certified Costs (in thousands) FY 2004-2009							
	2004	2005	2006	2007	2008	2009	5 Yr Avg
Protection	1,583	1,114	1,616	2,753	2,224	1,844	1,910
Forest Management	2,633	2,912	2,907	2,940	4,400	6,010	3,834
Forest Improvement	1,219	1,491	798	949	780	1,026	1,009
Administration	521	682	719	1,342	1,930	2,223	1,379
Forest Roads	23	47	34	81	41	74	55
Total	5,979	6,246	6,074	8,065	9,375	11,177	8,187

The purpose of this table is to provide a historical summary of certified costs.



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Certified Costs per Acre

MN Dept of Natural Resources
Division of Forestry
Certified Costs per Acre
(2005-2009)

	2005	2006	2007	2008	2009	5 yr Avg
Protection	0.47	0.70	1.15	0.93	0.77	0.80
Forest Management	1.22	1.22	1.23	1.84	2.51	1.60
Improvement	0.63	0.33	0.40	0.33	0.43	0.42
Administration	0.29	0.30	0.56	0.81	0.93	0.58
Roads	0.02	0.01	0.03	0.02	0.03	0.02
Total	2.63	2.56	3.37	3.93	4.67	3.43



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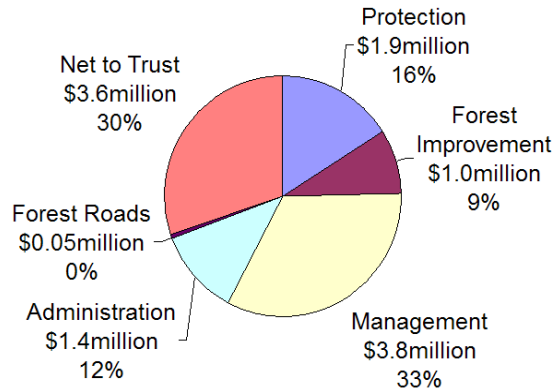


Average Distribution of Gross Trust Fund Revenue from the Forest Suspense Account

2005-2009 Average Gross Revenue from Trust Fund Lands

\$8.2 Million per Year for Costs

\$3.6 Million per Year to the Corpus



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Why the reduction in revenue to the Corpus?

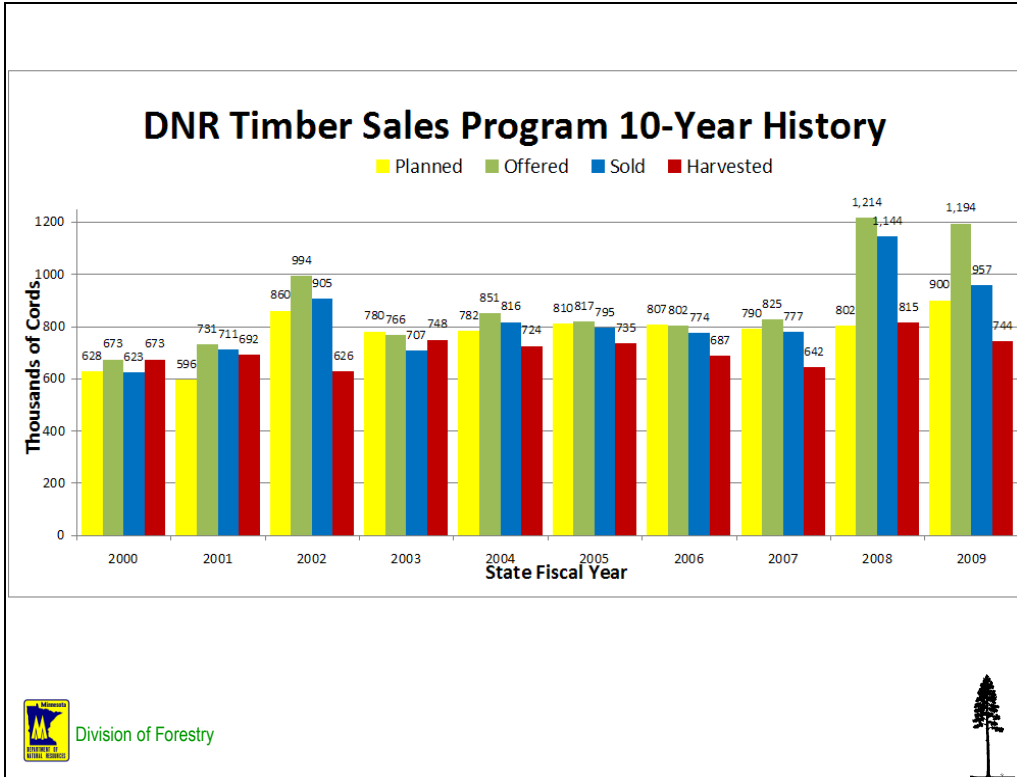
- Gross revenues declined due to economic factors
 - Decrease in stumpage value of timber
 - Abrupt decrease in timber volume sold
- Costs have increased due to:
 - Increase in timber improvement efforts
 - Increase in timber volume offered
 - Increase in timber re-offers



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