

Minnesota's School Trust Lands



Biennial Report

Fiscal Years 2006-2007
(7/1/2005 - 6/30/2007)

Minnesota Department of Natural Resources

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[Cover Photo: School trust land near Grand Rapids, MN. A state lease was awarded for the aggregate mining facility (foreground) and a utility license was awarded for the power line.]

Executive Summary

The Department of Natural Resources (DNR) manages 2.5 million acres of school trust lands, and an additional one million acres of school trust mineral rights. Revenue derived from these lands and minerals is deposited in the Permanent School Fund, with mining royalties, timber sales, land sales and surface leases providing most of the revenue. In FY06, gross revenue from these activities totaled \$24.7 million, and net revenue was \$16.3 million, 91% of which came from timber sales and mineral leases. In FY07, gross revenue was \$29.8 million, and net revenue was \$18.5 million. The big increase in FY07 revenue was the result of increased mining activity in Minnesota, which was driven in large part by increased worldwide demand for iron from China: from FY06 to FY07, school trust minerals revenue increased almost \$5.5 million.

Starting in FY05, the DNR began a program looking at the management of school trust lands and clarifying additional options to meet fiduciary obligations in generating revenue from the lands. One result has been the removal of all remaining school trust lands from state parks and state recreation areas where management prevents the generation of revenue. There was also a modest increase in land sales. Both of these efforts will be continued. Wind energy leasing and completing soft improvements prior to land sales will be projects during the FY08-09 biennium. And aggregate evaluation work is identifying further sites for gravel leasing. The results and findings of the School Trust Lands Revenue Enhancement Program are detailed in a separate report dated December 28, 2007, which is available on the DNR web site.

The trends reflect a booming taconite industry and a timber industry going through difficult times. While the revenue from minerals will continue to increase, the timber revenue will likely decline during the FY08-09 biennium.

1. History of Minnesota's trust land.

Lands set aside in trust for the support of schools are a long established tradition in the United States. The roots of this extend back to colonial practice and to English tradition¹. The new United States passed a General Land Ordinance in 1785, which allowed for the sale of western lands and provided for section 16 of each public land survey township to be set aside “for the maintenance of public schools, within the said township.”² With the formation of states from the western territories, these reserved lands would become state trust lands. This was first put into practice with the admission of Ohio to the Union in 1802. All states admitted to the Union since then have received some amount of school trust land,³ except those few cases where the federal government owned no land.

The federal Organic Act of 1849 created the Territory of Minnesota and reserved sections 16 and 36 of each public land survey township “for the purpose of being applied to the schools in said territory.”⁴ The federal Enabling Act of 1857 granted Minnesota these reserved lands, and the state's citizens accepted this grant with the adoption of a Constitution in October of the same year.⁵

Allowances were made for conditions in which sections 16 and 36 had already been claimed, did not exist in partial townships, or were under water. The grant ultimately resulted in 2.9 million acres being given the state for the support of the public schools. Also included in school trust lands today are the consolidation of remaining lands from two other federal land grants: the Swampland grant of about 4.7 million acres in 1860, and the Internal Improvement grant of 500,000 acres in 1866 (Table 1).

A State Land Office was established in 1863 to manage the trust lands; this office did so until 1931. In 1931 the State Land Office was replaced by the Department of Conservation as manager of trust lands. This agency was renamed the Department of Natural Resources in 1969.

Minnesota, like many other states, sought to translate this land into cash for the schools; the first sale of land took place in 1862. By 1900 much of the best agricultural, timber,

Table 1. School trust land by type of grant.

Type of grant	Original ^A acres granted	Acres as of 12/31/07
School	2,900,000	957,818
Swamp	4,706,503	1,550,818
Internal Improvement	500,000	6,508
Total	8,106,503	2,515,144

^A Office of the Legislative Auditor (footnote 3), p. 15.

¹ Matthias Nordberf Orfield, *Federal Land Grants to the States with Special Reference to Minnesota*. (Minneapolis, University of Minnesota, 1915). p. 7-13.

² *Ibid.*, p. 37

³ Minnesota's Legislature, Office of the Legislative Auditor, *School Trust Land, A Program Evaluation Report* (St. Paul, 1998), p.3; Orfield. p. 42-44.

⁴ Act of Congress, March 3, 1849, 9 Stat. ch. 121, section 18.

⁵ Act of Congress, February 26, 1857, 11 Stat. ch. 60, section 5, first paragraph.

and mineral lands – especially in the southern part of the state – had been sold to private interests, with mixed results for the schools.⁶ The wisdom of this quick sale policy for the best interests of the trust gradually came to be questioned. Other options, including retention of ownership with leasing for specified purposes, were considered. By 1901, for instance, the legislature directed that any sales of land would not include the underlying mineral rights, which would be retained in trust status by the state. From the turn of the century on, the trust lands would be managed with the idea of “selective retention” of lands that could best be managed by the state.⁷

2. Minnesota’s trust land today.

Today Minnesota has approximately 2.5 million acres of surface and minerals in school trust land status (as defined in Minnesota Statutes, sec. 92.025; Figure 1), plus an additional one million acres of severed mineral rights (Figure 2). Most school trust lands are located in the northern part of the state (Figure 3, Table 2).

Minnesota’s substantial trust lands, and the income they generate, make Minnesota more like western states (which generally still manage significant amounts of land and mineral resources for a variety of trusts) than eastern states (which generally disposed of trust lands permanently). For example, of Minnesota’s immediate neighbors, as of 1997 Iowa had no school trust lands, and Wisconsin has less than 5,000 acres. The Dakotas each manage over 600,000 acres of school trust land.⁸

3. Revenue from school trust lands, FY06-07.

With the acceptance of the land grant, the Constitution created the Permanent School Fund (PSF).⁹ Revenue for the PSF is generated from many activities, including sale of timber, wild rice leases, aggregate mining leases, state forest campground fees, lakeshore leases, easements across state trust land, the sale of a few parcels of land, and several other types of surface use. In addition, revenue is generated from rents and royalties on taconite iron ore removed from trust land, leases to remove peat, non-ferrous metallic mineral leases, and several other types of mineral rights use.

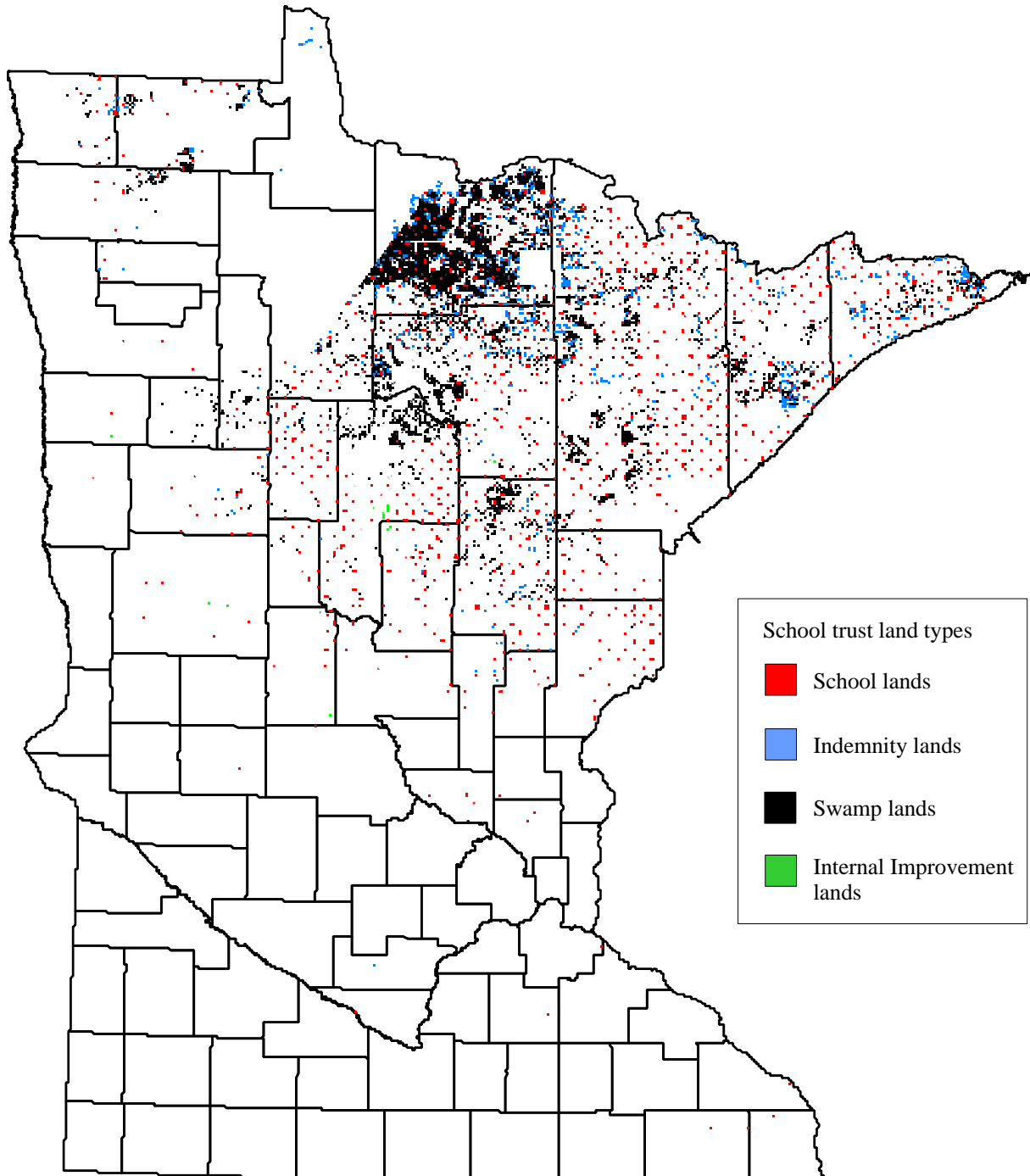
⁶ Minnesota Department of Natural Resources, School Trust Land Management Report, St. Paul, 1983. p. 10-12.

⁷ Ibid., p. 14-15.

⁸ Office of the Legislative Auditor, p. 18.

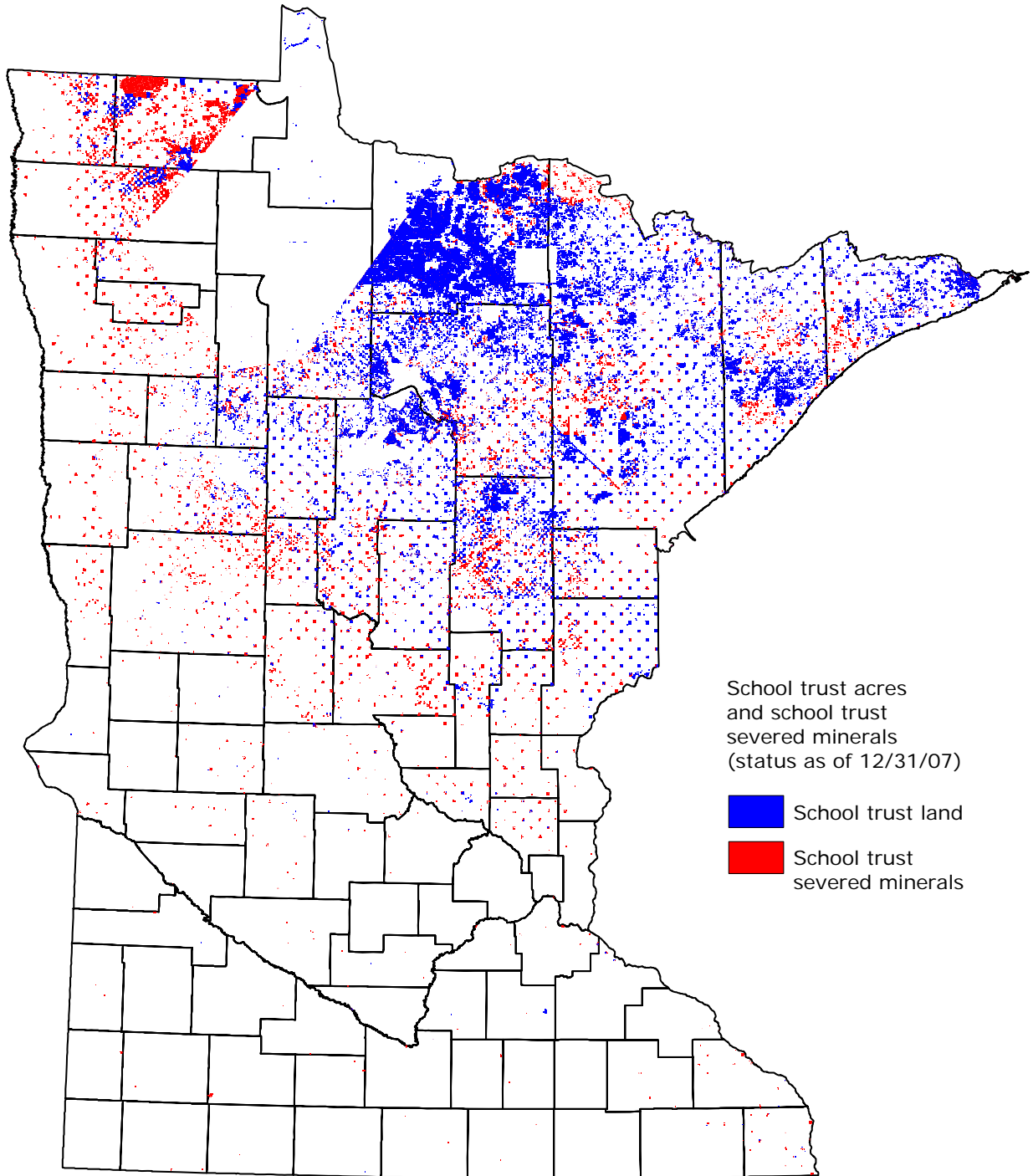
⁹ The Constitutional provisions are now found in Article 11, Section 8.

Figure 1. Map of Minnesota's school trust lands, by type of grant.



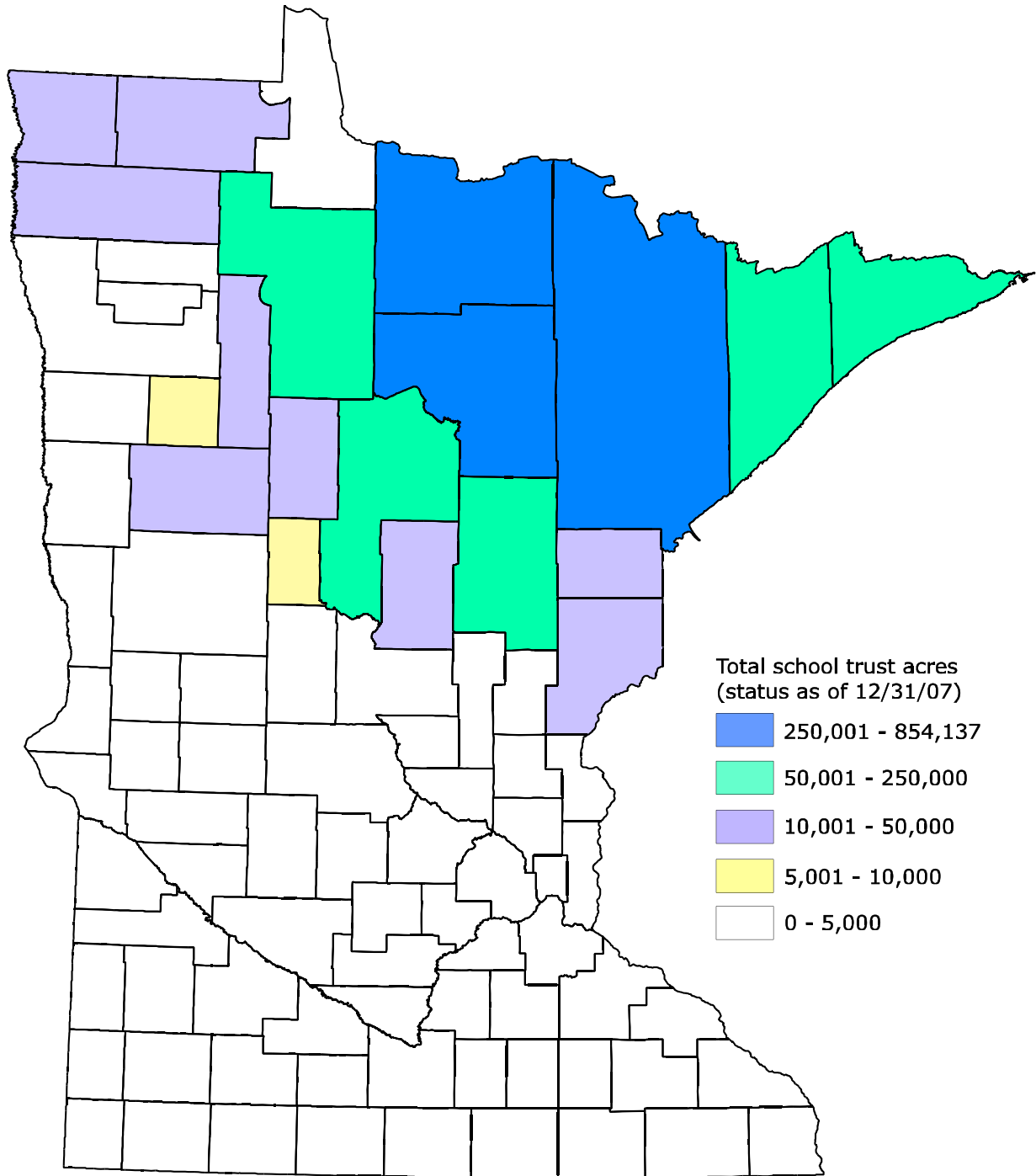
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Figure 2. Map of Minnesota school trust land and school trust severed mineral rights.



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Figure 3. Map of Minnesota's school trust lands, summarized by county.



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Table 2. Minnesota's school trust lands by county.

County	School Trust Land Acres	County	School Trust Land Acres
AITKIN	134,849	LAKE OF THE WOODS	4,636
ANOKA	644	LESUEUR	80
BECKER	16,081	MAHNOMEN	7,307
BELTRAMI	60,843	MARSHALL	22,398
BENTON	120	MARTIN	51
BIG STONE	94	MCLEOD	1
BLUE EARTH	7	MEEKER	41
CARLTON	21,851	MILLE LACS	4,478
CASS	150,753	MORRISON	2,884
CHIPPEWA	11	NICOLLET	1
CHISAGO	120	NORMAN	320
CLAY	321	OTTER TAIL	2,562
CLEARWATER	21,558	PENNINGTON	2,340
COOK	121,635	PINE	22,985
CROW WING	24,013	POLK	1,135
DAKOTA	110	POPE	80
DOUGLAS	160	RED LAKE	760
FILLMORE	120	ROSEAU	46,569
GOODHUE	227	SAINT LOUIS	481,828
HOUSTON	220	SCOTT	1
HUBBARD	29,346	SHERBURNE	1,156
ISANTI	200	SIBLEY	41
ITASCA	293,646	STEARNS	495
KANABEC	3,731	TODD	3,267
KANDIYOHI	200	TRAVERSE	40
KITTSOON	14,929	WADENA	6,128
KOOCHICHING	854,137	WINONA	122
LAKE	159,251	YELLOW MEDICINE	2

Note: The 31 counties not listed in this table do not contain school trust land.

3.1 Total gross revenue.

In **FY06** (7/1/05 - 6/30/07), the gross revenue from activities on school trust lands was about **\$24.7 million** (Figure 4).

- Timber sales contributed a total of about \$11.33 million.
- Leases accounted for about \$12.24 million. Included in this category were mineral leases (about \$11.16 million), surface leases/licenses/easements (\$0.96 million), and forest campground fees (about \$0.12 million).
- Sale of trust land totaled about \$1.10 million, including installment payments on land sold in previous years.

In **FY07** (7/1/06-6/30/07), the gross revenue from activities on school trust lands was about **\$29.8 million** (Figure 4).

- Timber sales contributed a total of about \$9.87 million.
- Leases accounted for about \$19.15 million. Included in this category were surface leases/licenses/easements (\$0.76 million), forest campground fees (about \$0.11 million), and mineral leases (about \$18.28 million, which includes about \$1.73 million that was transferred from the minerals management fund to the school trust fund).
- Sale of trust land totaled about \$0.81 million, including installment payments on land sold in previous years.

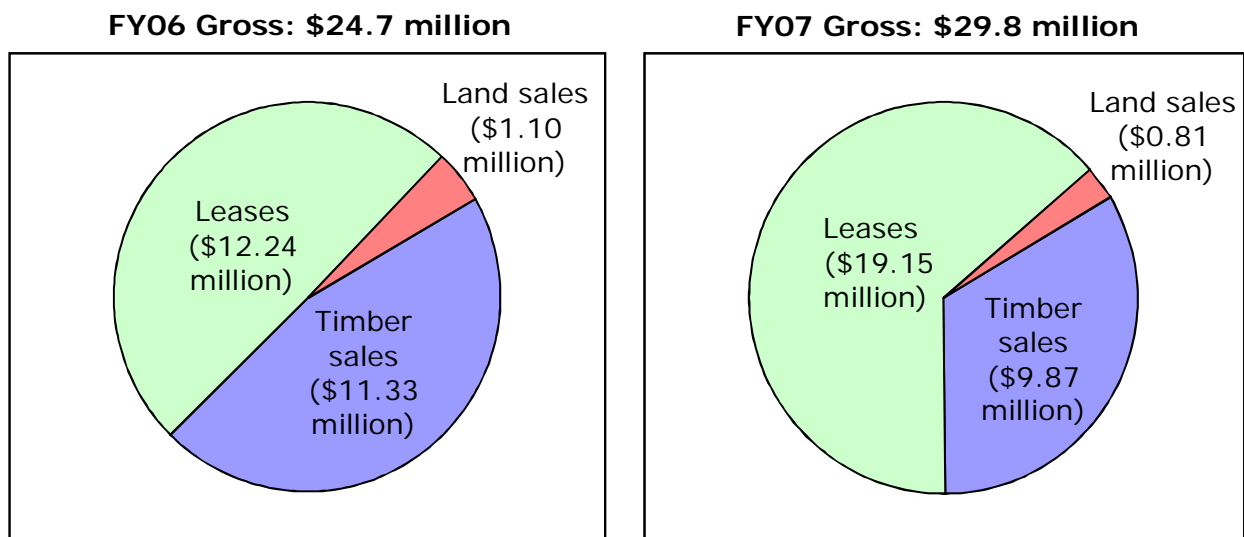


Figure 4. Gross revenue from school trust lands, FY06-07.

3.2 Total net revenue.

As explained further in section 4, some surface management costs can be certified against certain revenues to determine the net revenue deposited into the PSF. Timber sales and surface lease revenue can be used toward certified costs and is first deposited into the State Forest Suspense Account. For FY06 and FY07, the legislature changed the way some mineral management costs were handled (see section 4). Prior to these changes, management costs could generally not be deducted from revenue derived from mineral activities.

In **FY06** (7/1/05 - 6/30/06), net revenue to the school trust fund was about **\$16.5 million** (Figure 5).

- About \$6.39 million came from the Forestry Suspense Account.
- About \$8.99 million came from mineral leasing activities. This is the gross revenue minus 20% of the iron ore/taconite revenue and the metallic mineral revenue.
- About \$1.10 million came from trust land sales. (This includes about \$14,000 from standing timber on sold lands.)

In **FY07** (7/1/06-6/30/07), net revenue to the school trust fund was about **\$18.5 million** (Figure 5).

- About \$2.74 million came from the Forestry Suspense Account . (About \$310,000 from land sales was erroneously deposited into the Forestry Suspense Account instead of being deposited directly into the Permanent School Account; that \$310,000 is included in the \$0.81 million reported below for trust land sales.)
- About \$15.02 million came from mineral leasing activities. This is the gross revenue of minus 20% of the iron ore/taconite revenue and the metallic mineral revenue, plus \$1.73 million that was returned from the mineral management account.
- About \$0.81 million came from trust land sales. (This included about \$85,000 from standing timber on sold lands.)

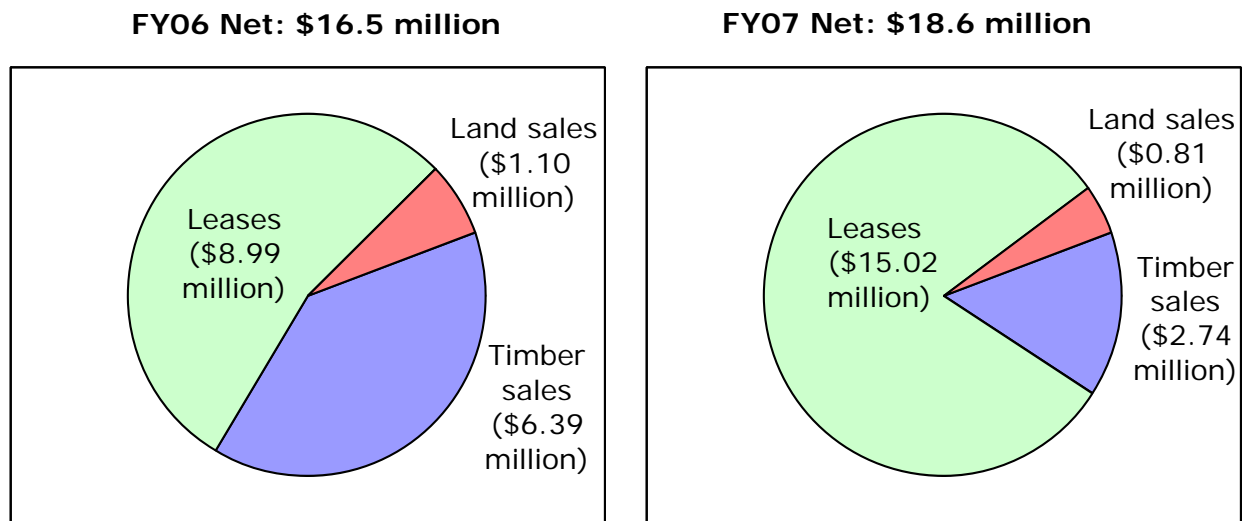


Figure 5. Net revenue from school trust fund, FY06-07.

3.3 Revenue from minerals activities on school trust lands.

In **FY06**, gross revenue generated from minerals activities on school trust lands was **\$11.16 million** (Table 3). The largest contributor was \$10,808,098 from iron ore/taconite rents and royalties (and interest). Other contributing categories were non-ferrous metallic minerals leases (\$119,519), stockpiling/surface leases (\$34,082), peat leases (\$54,916), and M-leases (leases for stockpiled, low-grade iron materials; \$143,027). Twenty percent of the revenue from iron ore/taconite and non-ferrous metallic minerals rent and royalties (\$2,165,778) went to the minerals management account and the remainder of the minerals revenue (\$8,993,864) went to the school trust fund.

In **FY07**, gross revenue generated from minerals activities on school trust lands was **\$18.28 million** (Table 3). The largest contributor was \$16,246,028 from taconite iron ore rents and royalties (and interest). Other contributing categories were non-ferrous metallic minerals leases (\$167,270), stockpiling/surface leases (\$11,030), peat leases (\$85,528) and M-leases (leases for stockpiled, low-grade iron materials; \$39,424). Twenty percent of the revenue from iron ore/taconite and non-ferrous metallic minerals rent and royalties (\$3,254,288) went to the minerals management account and the remainder of the minerals revenue (\$13,294,993) went to the school trust fund. Also, \$1,728,892 was transferred back to the school trust fund in FY07 (see Section 4.2 for details).

	FY06	FY07
Taconite and Iron ore rents/royalties	\$10,808,098	\$16,246,028
Non-ferrous metallic minerals	\$119,519	\$167,270
Stockpiling/Surface leases	\$34,082	\$11,030
Peat	\$54,916	\$85,528
M-leases	\$143,027	\$39,424
Transferred back from the Minerals Management Fund	\$0	\$1,728,892
Total	\$11,159,642	\$18,278,172

Table 3. Revenue from mineral leases, FY06-07.

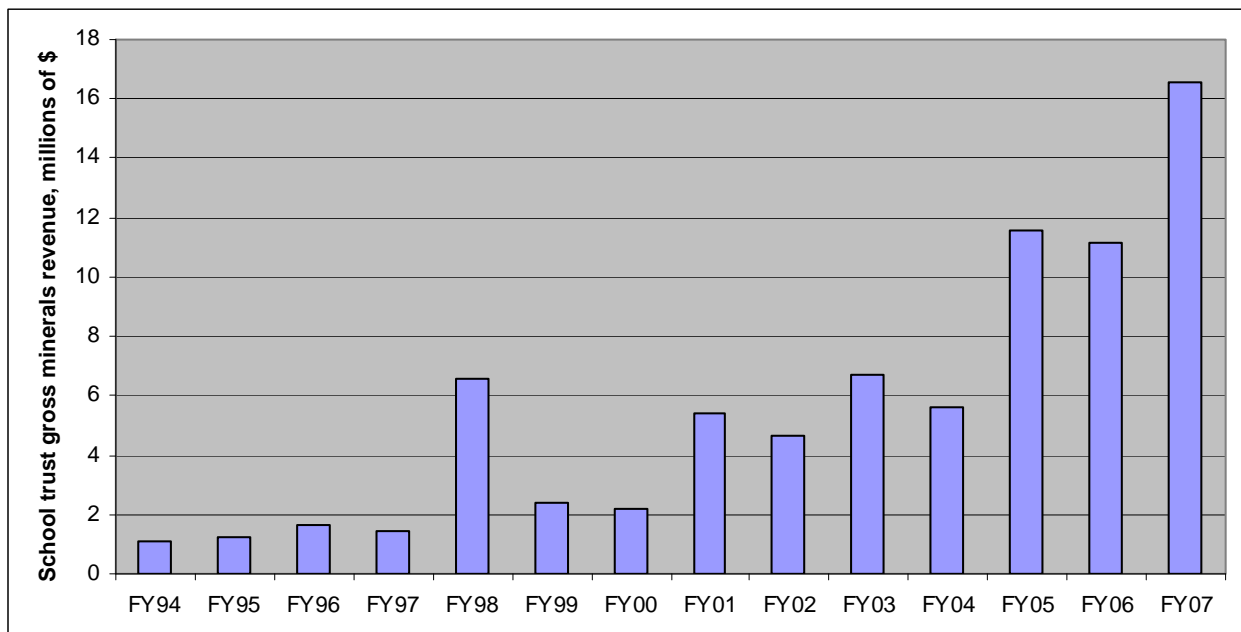


Figure 6. School trust fund income from minerals, FY94-07.

Trends in revenue from mineral leasing

Minnesota's taconite producers suffered a wave of bankruptcies in 2000-2003, but a turnaround that began in late 2003 now has them operating at full capacity. A dramatic increase in steel production and iron ore consumption by China has led to record world-wide demand, and school trust revenue from mineral leasing rose almost \$11 million from FY04 to FY07, with \$5 million of that increase occurring in FY06-07.

3.4 Revenue from land sales.

In **FY06**, the sale of trust land generated a total of **\$1,099,937** (Table 4). This included sale of land payments (down payments and paid-in-fulls) of \$395,693 and installment payments of \$610,343, and loan interest payments of \$79,880. When the school trust parcel being sold has marketable timber, the timber value is added to the land value. (This is separate from the sales of standing timber. That data is presented in Table 4) The timber value for sold trust fund land contributed \$14,021.

In **FY07**, the sale of trust land generated a total of **\$813,911** (Table 4). This included sale of land payments (down payments and paid-in-fulls) of \$126,143, and land sale installment payments of \$563,047. There were also loan interest payments of \$17,088 and land sale costs of \$12,600. The timber value of sold trust land brought in \$85,033.

Table 4. Revenue from land sales, FY06-07.

	FY06	FY07
Sale of land (down payments and paid-in-fulls)	\$395,693	\$126,143
Sale of land (installment payments)	\$610,343	\$563,047
Land sale costs ^A	\$0	\$12,600
Sale of timber ^B	\$14,021	\$85,033
Loan interest	\$79,880	\$27,088
Total	\$1,099,937	\$813,911

^A Appraisal fees, legal notices, recording fees, etc.

^B This is for timber located on sold lands, and is separate from sales of standing timber conducted by the Division of Forestry, which is shown in Table 5.

3.5 Revenue from timber sales and surface leasing activities.

3.5.1 Timber sales.

In FY06 and FY07, timber revenues included timber sales and timber sales interest.

1. In FY06, timber sales receipts totaled over \$11.34 million, with timber sale interest bringing in \$20,390. All of this revenue was deposited into the Forestry Suspense Account, for certification at the end of the year (Figure 7, Table 5).
2. In FY07, timber sale receipts totaled more than \$9.92 million, with timber sale interest bringing in \$8,144. All of this revenue was deposited into the Forestry Suspense Account (Figure 7, Table 5).

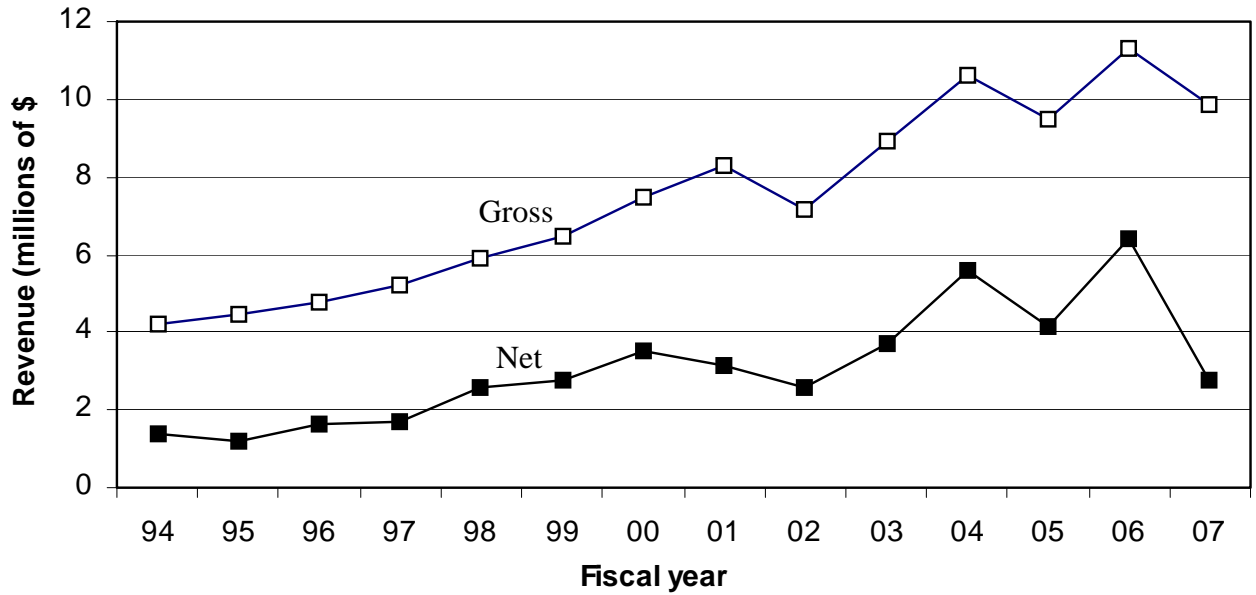


Figure 7. School trust fund income from timber sales, FY94-07.

Table 5. Revenue from timber sales and surface leasing activities, FY06-07.

	FY06	FY07
Timber sales	\$11,310,052	\$9,867,860
Timber sales interest	\$20,390	\$8,144
Sale of standing timber ^A	\$14,021	\$45,646
Subtotal; timber sales:	\$11,344,463	\$9,921,650
Leases, licenses, easements ^B	\$956,976	\$759,120
Campground fees	\$121,341	\$113,134
Subtotal; surface leasing:	\$1,078,317	\$872,254
Total:	\$12,422,780	\$10,793,904

^A This is for removal of timber in path of utility line installation, and is distinct from sales of timber on lands sold, which is presented in Table 4. Standing timber revenue is deposited directly into the PSF, and is not subject to certification (see section 4).

^B See Table 6 for details.

Note: totals may not add due to independent rounding.

3.5.2 Campground fees.

Campground fees from school trust lands totaled \$121,341 in FY06, and totaled \$113,134 in FY07 (Table 5.)

3.5.3 Surface leases, licences and easements.

In **FY06**, a gross total of about **\$956,976** was collected on 4,211 active surface contracts that included some portion of trust land (Tables 5, 6, 7). (Because many of the agreements involve a one-time payment in the year of issue, only some of the active contracts generated revenue in FY06.) The surface contracts include:

- Leases: Aggregates; agriculture; hunting cabins; miscellaneous (commercial, government and private); lakeshore
- Permits: Resource Management Access (RMA), Grant-In-Aid (GIA)
- Easements: Permanent and temporary easements (primarily road) on trust fund land
- Licenses: Water crossings and land crossings by utilities

In **FY07**, a gross total of about **\$759,120** was collected on 4,280 active contracts that included some portion of trust land (Tables 5, 6, 7). As was the case in FY06, many of the active agreements generated revenue only in their year of issue.

Table 6. Revenue by contract type, FY06-07.

Contract type	FY06	FY07
Easements	\$40,640	\$49,337
Land crossings	\$6,994	\$30,734
Water crossings	\$122,163	\$142,808
Leases: aggregate	\$460,717	\$172,449
Leases: agricultural	\$16,801	\$13,781
Leases: miscellaneous	\$273,602	\$240,669
Leases: other (boathouse, lakeshore, etc.)	\$17,766	\$17,577
Leases: hunting cabins	\$14,570	\$15,980
Wild rice farming ^A	\$3,723	\$3,723
Late fees on DNR land leases ^A	\$0	\$165
Permits	\$0	\$71,897
Total	\$956,976	\$759,120

Trends in revenue from surface leases, licenses and easements

Revenue from surface leases, licenses and easements is variable. New contracts are signed each year while others expire or are cancelled. Some contracts involve annual fees while others involve a one-time payment in the year of issue. And two or more payments are sometimes received in a fiscal year for a given contract, followed by no payments in the subsequent fiscal year.

^A Deposited directly into the PSF; not subject to certification (see Section 4).

Note: Totals may not add up due to independent rounding. Data from MAPS.

Table 7. Approximate number and acreage of active contracts involving school trust land, FY06-07.

Contract type	FY06 (as of 6/30/06)		FY07 (as of 6/30/07)	
	Number of contracts	Acres	Number of contracts	Acres
Agricultural leases	63	2,495	65	2,502
Aggregate leases	39	633	40	617
Home site leases	6	3	6	3
Hunting cabin leases	51	28	51	28
Lakeshore cabin leases	3	3	3	3
Misc. commercial leases ^A	43	764	39	770
Misc. government leases ^A	68	165	60	155
Misc. private leases ^A	32	790	30	788
Misc. leases, combined ^A	142	1,258	165	1318
Easements	731	5,097	744	5,148
Land crossings licenses	491	11,717	504	11,752
Water crossings licenses	2383	na	2407	na
Subtotal:	4,052	22,953	4,114	23,084
Grant-in-Aid permits	93	na	100	na
Management access permits	66	na	66	na
Subtotal:	159	na	166	na
Total:	4,211	22,953	4,280	23,084

^A Starting 7/1/02, misc. commercial, government and private leases (document types 011, 015, 016, respectively) were combined into a single category (Misc. Leases, document type 012). The old lease numbers will stay in effect until they expire, and if they are renewed, will be given a new (012) lease number.

4. Management costs of school lands.

4.1 Forestry trust land cost certification process.

The Minnesota State Constitution, Article XI (Appropriations and Finances), Section 11 (Timber lands set apart as state forests; disposition of revenue) reads:

“School and other public lands of the state better adapted for production of timber than for agriculture may be set apart as state school forests, or other state forests as the legislature may provide. The legislature may also provide for their management on forestry principles. *The net revenue therefrom shall be used for the purposes for which the lands were granted to the state*” (emphasis added).

Minnesota Statutes, sec.16A.125 controls which surface management costs can be certified against revenues from trust fund lands, and how the certified costs and net revenues from the trust fund lands are distributed.

The allowable costs are for the protection, improvement, administration and management of forest lands, and for the construction and maintenance of forest roads (Figure 8).

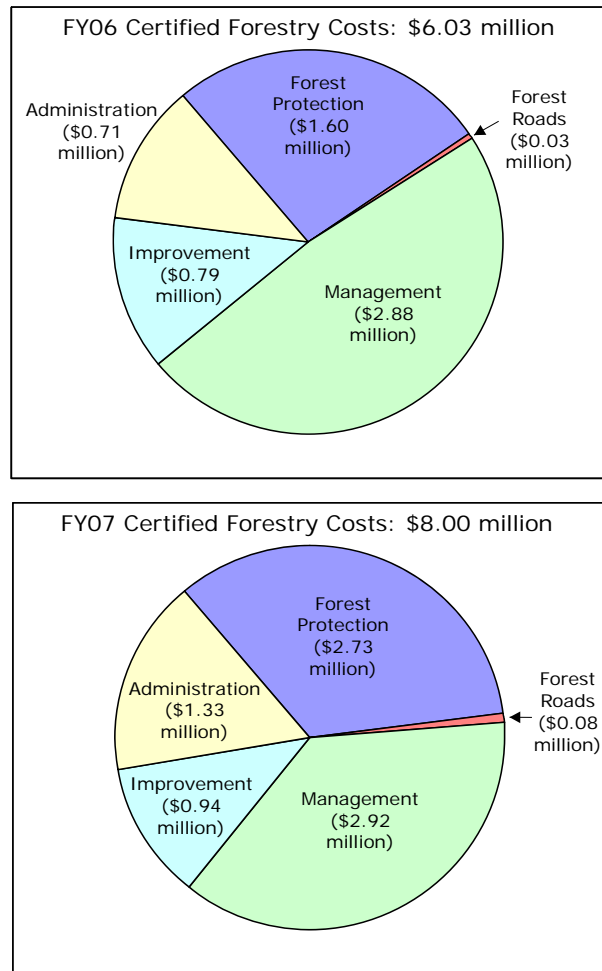
Only those charges that were paid from the state’s General Fund accounts appropriated for forestry are included. Costs charged to dedicated funds and federal funds are excluded from the cost certification process.

The DNR identifies hours of paid staff time and dollars expended using a set of cost codes for staff time and dollars expended on forestry activities. These cost codes identify charges based on the

type of activity (e.g. tree planting, forest inventory, timber sales), and on the land type on which the activity took place.

Permanent School and University Trust Fund lands are treated as a group, and that group’s costs are recorded separately from all other state land costs. Applicable costs are prorated on a uniform per acre basis between school and university trust lands, and certified accordingly.

Figure 8. Certified Forestry Costs, FY06-07.



Note: Totals may be different from sum of subtotals due to independent rounding.

The process only applies to trust lands that may be capable of generating forestry related revenues. Trust lands in wilderness areas, state parks, mines and in developed land uses (i.e. leased “urban” building sites) are excluded from the process.

Four specific types of activities (or costs) have a more involved allocation process:

1. **Annual fire protection** (pre-suppression and suppression) costs are spread across all 22.8 million acres of public and private lands receiving our protection services. The resulting per acre charge, similar to a municipal tax levy for fire services, is then applied to the acres of trust fund lands that qualify for cost certification.
2. **Forest road costs** are allocated on a per acre basis to all lands within one-quarter mile of the centerline of the 2,200 mile state forest road system. The cost per acre is then multiplied by the trust land acres within that zone, and that cost total is certified against the trust.
3. **Timber sales costs** are allocated to all lands in proportion to the revenues received from those lands. In both FY06 and FY07, 44% of state timber sales revenues were from PSF lands, so 44% of all state timber sales costs were attributed to the PSF lands.
4. **Forestry administrative costs** (e.g. bill paying, payroll processing, clerical support services, fleet management charges) are prorated in a step-wise fashion based on dollars expended. The first step prorates those costs to each fund from which forestry expenditures are made. The second step prorates the General Fund’s share of those administrative costs to the various cost activities on each class of land. Finally, only the portion of those administrative costs that apply to trust fund land activities are certified against trust fund revenues.

Gross revenues received through management of trust lands for forestry (see Table 5) are deposited in the State Forest Suspense Account. (Only revenues derived from forestry activities are included in the process. Non-forestry revenues, such as mineral royalties, are excluded from the process.) Certified costs of management are deducted from the gross, and the net is deposited into the PSF after the close of each fiscal year.

The trust land cost certification process has been reviewed twice in recent years (FY93 and FY97) by the Office of the Legislative Auditor (OLA). In the reports issued by the OLA, the methods and process used were found “to be reasonable.” In the case of each audit, directives and suggestions for change and improvement in the process were made by the OLA. All of the directives and applicable suggestions have been implemented.

4.2 Changes to mineral management costs on school lands.

The current practice as to mineral management costs started in Fiscal Year 2006. The 2005 Minnesota Legislature enacted a law (Laws of MN 2005, First Special Session, Chapter 1) that created a minerals management account. Twenty percent of the payments made under all state mineral leases is credited to the minerals management account as costs for the administration and management of the state mineral resources by the commissioner of natural resources. Money in the minerals management account is appropriated by the legislature to the commissioner of natural resources for mineral resource management and projects to enhance future mineral income and promote new mineral resource opportunities.

The minerals management account was designed to create a \$3 million principal that could be drawn upon in the event that future income generation drops. The \$3 million level was reached in Fiscal Year 2007. At the end of each fiscal year the amount exceeding \$3 million will be distributed to the Permanent School Fund and Permanent University Fund in proportion to the revenue contributed to the minerals management account by these two land types. For Fiscal Year 2007, the Permanent School Fund received \$1,728,892 transfer from the minerals management account (Table 8).

	Mineral lease revenue sent directly to the school trust fund (80% of the total)	Mineral lease revenue to the Minerals Management Account (20% of revenue)			Transferred back to the school trust fund *	Total revenue to the school trust fund
		Iron ore / taconite	Metallic minerals	Total		
FY 2006	\$8,993,864	\$2,141,874	\$23,904	\$2,165,778	\$0	\$8,993,864
FY 2007	\$13,294,993	\$3,220,833	\$33,454	\$3,254,287	\$1,728,892	\$15,023,885

* At the end of each FY, the amount in the minerals management account exceeding \$3,000,000 is returned to the school and university trust funds in proportion to the amount that each paid in to the account. (The \$1,728,892 from the management account occurred in FY08 but is counted with FY07 revenue.)

Table 8. School trust revenue transferred to the school trust from the minerals management account.

4.3 School trust fund revenue enhancement program and aggregate evaluation.

For FY06-07, the legislature appropriated \$300,000 from the state forestry suspense account to accelerate land exchanges, land sales, and commercial leasing of school trust lands, and an additional \$100,000 to identify and sell sand and gravel or crushed stone from school lands. \$279,798 of these appropriations was expended and the remainder was returned to the forestry suspense account.

5. Review of FY06-07 forestry activities and metallic minerals leases.

5.1 Forestry activities, FY06-07

In FY06, 802,122 cords of timber were offered for sale, slightly down from the prior year. In FY07, the volume of wood offered was up 3%, mostly due to reoffering wood from voluntary forfeitures of permits by permit holders. As market demand collapsed beginning August 2006, public stumpage prices for state timber dropped dramatically, particularly for aspen. The average price received at state timber auctions in FY07 was \$27.00/cord, down from \$55.75 in FY06, a 51% reduction. As markets fail to improve, stumpage values remain depressed. Major Timber Relief legislation passed in 2007, allowing almost 300,000 cords of state timber to be returned the summer of 2007.

5.2 Metallic minerals leases, FY06-07

Three processes are used to issue non-ferrous metallic mineral leases in Minnesota; public auction, negotiation, and an application process (called preference rights) for leases offered at public auction but not bid upon at the auction. For the first few years, the lessees conduct exploration work. As is common with this endeavor, most leases are terminated by lessees within a few years of issuance; only a small number remain in effect for more extensive exploration and evaluation.

During the FY06-07 biennium, a total of 32 metallic mineral leases were issued. Fourteen of them were awarded to bidders at the 2006 Metallic Minerals Lease Sale auction, 14 were negotiated leases, and 10 were preference rights leases. These 32 leases were awarded to seven companies (608457 B.C. Ltd., Duluth Metals Corp., Encampment Resources LLC, Kennecott Exploration Co., Lehmann Exploration Management, Inc., Prime Meridian Resources LLC, and Solway Resources LLC) and covered a total of 11,806 acres. Three of the 32 leases (covering 1,732 acres) were in Carlton County, two (976 acres) were in Itasca County, five (2,377 acres) were in Kanabec County, three (206 acres) were in Lake County, seven (2,080 acres) were in Lake of the Woods County, and 12 (4,435 acres) were in St. Louis County. Of the 11,806 acres covered by the new leases, 1,001 acres (8.5% of the total) is school trust land.

6. Management of the PSF and income payments to public schools.¹²

The State Board of Investment (SBI) is the agency that manages the PSF. Income earned from the school trust lands is added to the PSF principal, which is then invested by the SBI. In accordance with the Minnesota Constitution, the principal of the PSF cannot be spent, and instead must remain perpetual and inviolate. Each year the SBI distributes interest and dividends earned from investment of the PSF to the public schools. This is accomplished by using the PSF income to offset the State's general fund education appropriation.¹³

¹² Data from the State Board of Investment Annual Report

¹³ Office of the Legislative Auditor, p.101

About \$22 million of spendable income was generated by the PSF fund in FY06 and distributed to the public schools (i.e. less than 1% of the total school aid amount appropriated by the legislature). In FY07, payments to schools totaled about \$25 million. As of June 30, 2005 (the beginning of the FY06-07 biennium) the market value of the PSF was \$612 million, the majority of which was generated from land and timber sales, land leases, and mineral taxes and royalties collected since the time of statehood. Reflecting the general growth in the stock market over the FY06-07 time period, the market value of the PSF principal rose from \$612 million to \$635 million during FY06, and had increased to \$714 million by the end of FY07.

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