

2010

MN Dept Of Natural Resources

Division of Forestry

[M.S. 16A.125 TRANSFER CERTIFICATION REPORT]

The contents of this report identify costs certified against trust lands and how the certified costs and net revenues from trust lands are distributed

Contents include:

- Forestry Transfer Certification Process
- M.S. 16A.125 Transfer Certification Report

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M.S.16A.125 Transfer Certification Process

Minnesota Statute 16A.125, Subd. 5 direct which costs are certified against trust fund lands and how the certified costs and net revenues from trust fund lands are distributed. Only those costs paid from the General Fund and Forest Management Investment Fund are included in cost certification. Costs charged to dedicated funds and federal funds are excluded from the cost certification process. In addition, only revenues derived from Forestry activities are included in the process. Non-forestry revenues, such as mineral royalties are excluded.

MS16A.125, Subd 5 states:

Subd. 5. Forest trust lands.

(a) The term "state forest trust fund lands" as used in this subdivision, means public land in trust under the Constitution set apart as "forest lands under the authority of the commissioner" of natural resources as defined by section [89.001, subdivision 13](#).

(b) The commissioner of management and budget shall credit the revenue from the forest trust fund lands to the forest suspense account. The account must specify the trust funds interested in the lands and the respective receipts of the lands.

(c) After a fiscal year, the commissioner of management and budget shall certify the total costs incurred for forestry during that year under appropriations for the protection, improvement, administration, and management of state forest trust fund lands and construction and improvement of forest roads to enhance the forest value of the lands. The certificate must specify the trust funds interested in the lands. The commissioner of natural resources shall supply the commissioner of management and budget with the information needed for the certificate.

(d) After a fiscal year, the commissioner shall distribute the receipts credited to the suspense account during that fiscal year as follows:

(1) the amount of the certified costs incurred by the state for forest management, forest improvement, and road improvement during the fiscal year shall be transferred to the forest management investment account established under section [89.039](#);

(2) the balance of the certified costs incurred by the state during the fiscal year shall be transferred to the general fund; and

(3) the balance of the receipts shall then be returned prorated to the trust funds in proportion to their respective interests in the lands which produced the receipts.

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The Division of Forestry identifies hours paid and dollars expended using a set of cost codes. The cost codes identify charges based on a specific activity (e.g. fire suppression, forest inventory, etc.) that created the expenditure. These activities are grouped into 5 main categories; protection, improvement, roads, management, and administration. Once costs are determined, both on trust and non-trust lands, then we prorate these costs on a per acre basis between school and university. Total state acres subject to forest management activities are ~5.4 million. Of this amount, ~2.4 million acres is attributable to trust fund lands. The certification process only applies to activities that generate forestry related net revenues. Activities, such as recreation and private land management are excluded from the process.

Five types of activities have an allocation process.

1. **Fire Protection:** We protect 22.8 million acres against wildfires. The cost of protecting Trust lands against wildfire is determined by multiplying trust land acres on a cost per acre basis.
2. **Forest Roads:** State forest roads provide access to some trust lands. Those lands that are within one-quarter mile of the road are served by the road. Each year, we calculate the cost of maintaining roads on a per acre basis. The cost of road maintenance for Trust lands is the number of acres of Trust land within one-quarter mile of a state road multiplied by the per acre cost of road maintenance.
3. **Management:** Management costs are allocated to all lands in proportion to the revenues received from those lands. Management costs consist of activities like inventory, and insect and disease. These costs are charged on a per acre basis based on a percent of trust vs. non-trust lands. Timber activities consist of timber sales preparation and administration. These timber activities can be directly tied to the revenue generated on trust lands. In FY 2010, 46 percent of all timber revenue was generated on Trust Lands, so the cost of managing them is calculated at 46 percent.
4. **Forest Improvement:** Each year, we calculate the amount of money we spend on improving the activities of forestland that we manage. These activities may include site preparation and stand improvement. The cost of improving forests is applied to the ratio of trust lands to non-trust lands.
5. **Administration:** Each year, we calculate the amount of administrative costs attributable to trust lands. A percent of administrative costs are charged to trust lands on a per acre basis.

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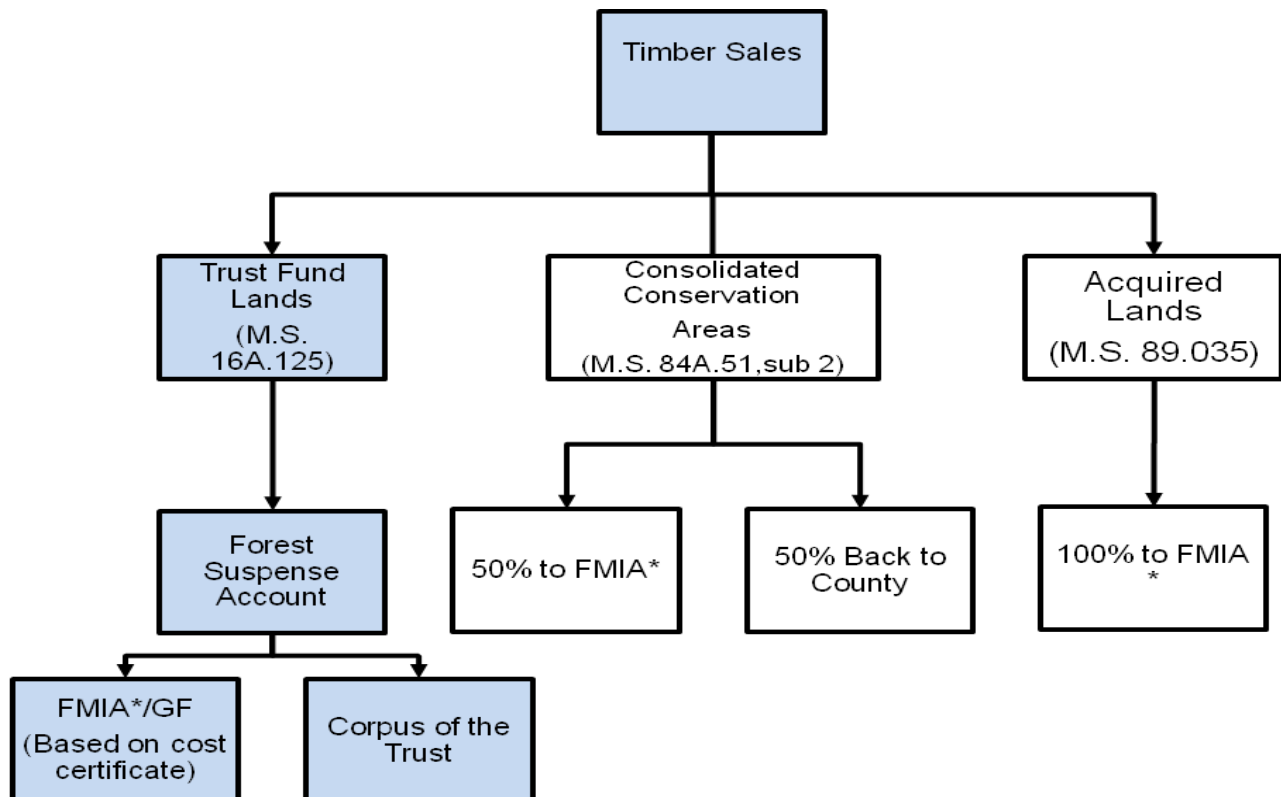
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General Operations: In addition, general operations costs are “the cost of doing business”, the record keeping and other activities that support day-to-day operations. Support services, such as bill paying, training, and personnel management allow the certifiable activities above to be performed. Costs for support services, however, are difficult to tie to any specific activity. Therefore, we prorate general operations costs back to activities based on the percent of expenditures in each activity (ie: management, improvement, roads, and administration). Thus, if maintaining forest roads accounts for 5 percent of all expenditures, 5 percent of general operations costs are included in the cost of maintaining forest roads. Fire Protection is excluded from this calculation because these activities are charged directly to fire.

Finally, the trust land certification process was reviewed in FY1993 and FY1997 by the Office of Legislative Auditor (OLA). In the final reports issued by the OLA, the methods and process used were found “to be reasonable”. Directives and suggestions for change and improvement have been implemented.

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The purpose of this graph is to identify how Timber Sales revenue on Trust Lands flows through the suspense account and to provide a historical summary on the account. Per M.S. 16A.125, Subd 5., certified costs for administration and protection are transferred to the general fund. Costs for management, improvement and roads are transferred to FMIA. The balance is transferred to the corpus of the trust.

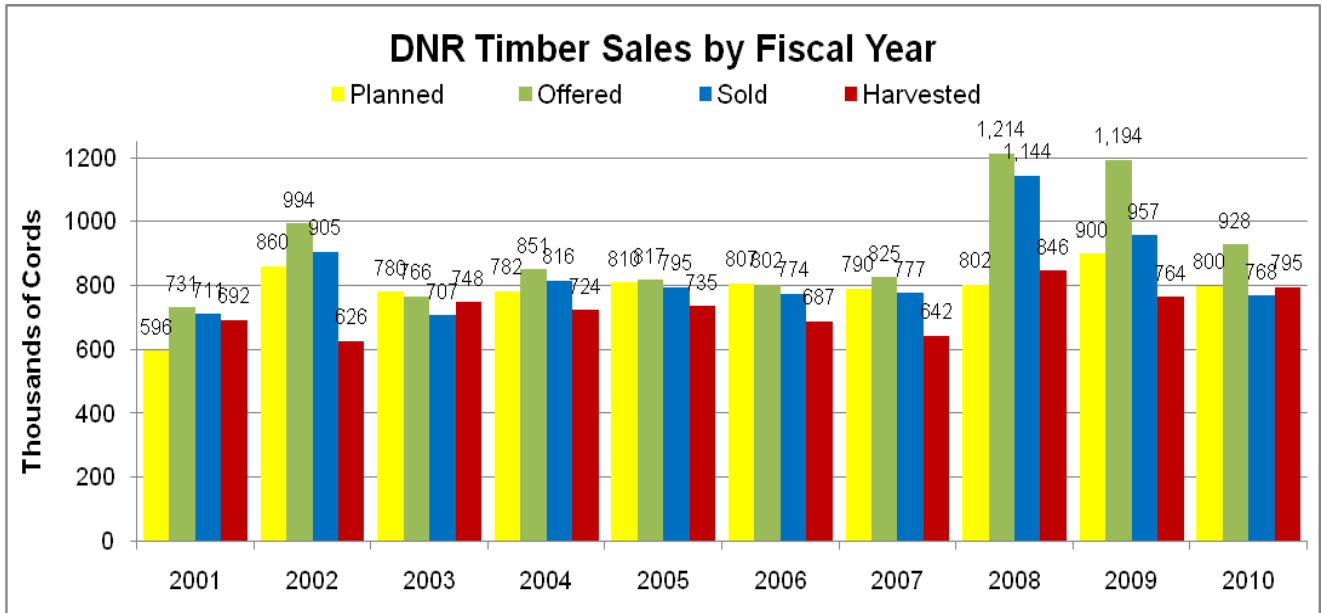


Forest Suspense Account History						
(in thousands)						
FY 2006-2010						
	2006	2007	2008	2009	2010	5 Yr Avg
Total Timber Revenue	25,518	22,582	25,315	19,561	18,946	22,384
Revenue on Trust Lands	12,497	10,937	13,226	11,430	9,713	11,561
Transfer to GF	1,954	4,094	4,154	4,067	3,793	3,612
Transfer to 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

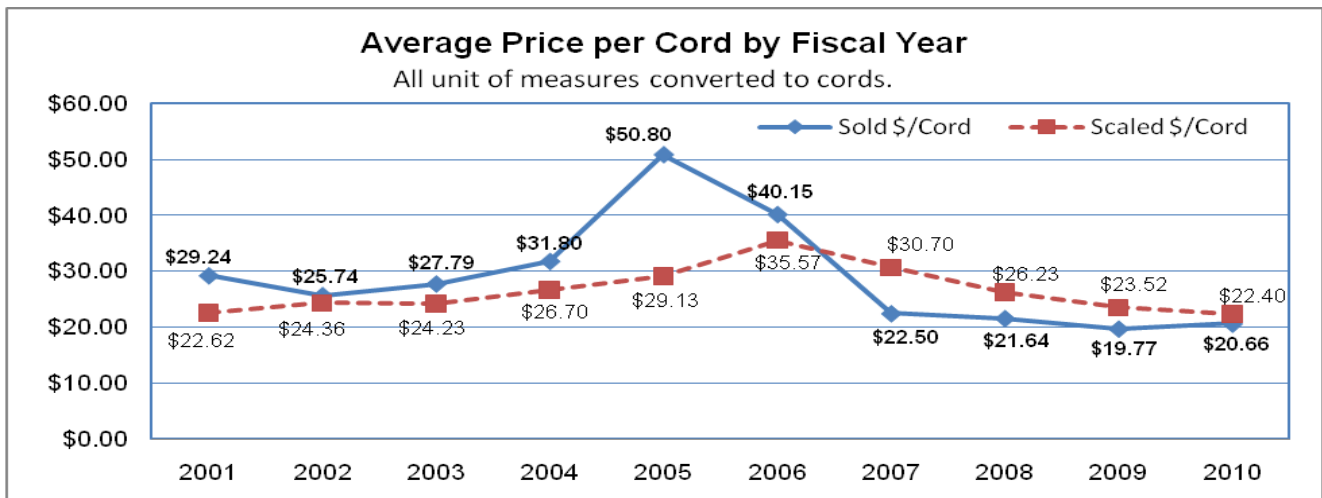
M.S.16A.125, Subd.5(d)-Costs certified in FY10 are actually transferred in FY11.

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The purpose of the top graph is to show the historical trend for cords planned, offered, sold and harvested. The bottom graph shows the historical trend of the average price sold per cord and the average price received for cords scaled.



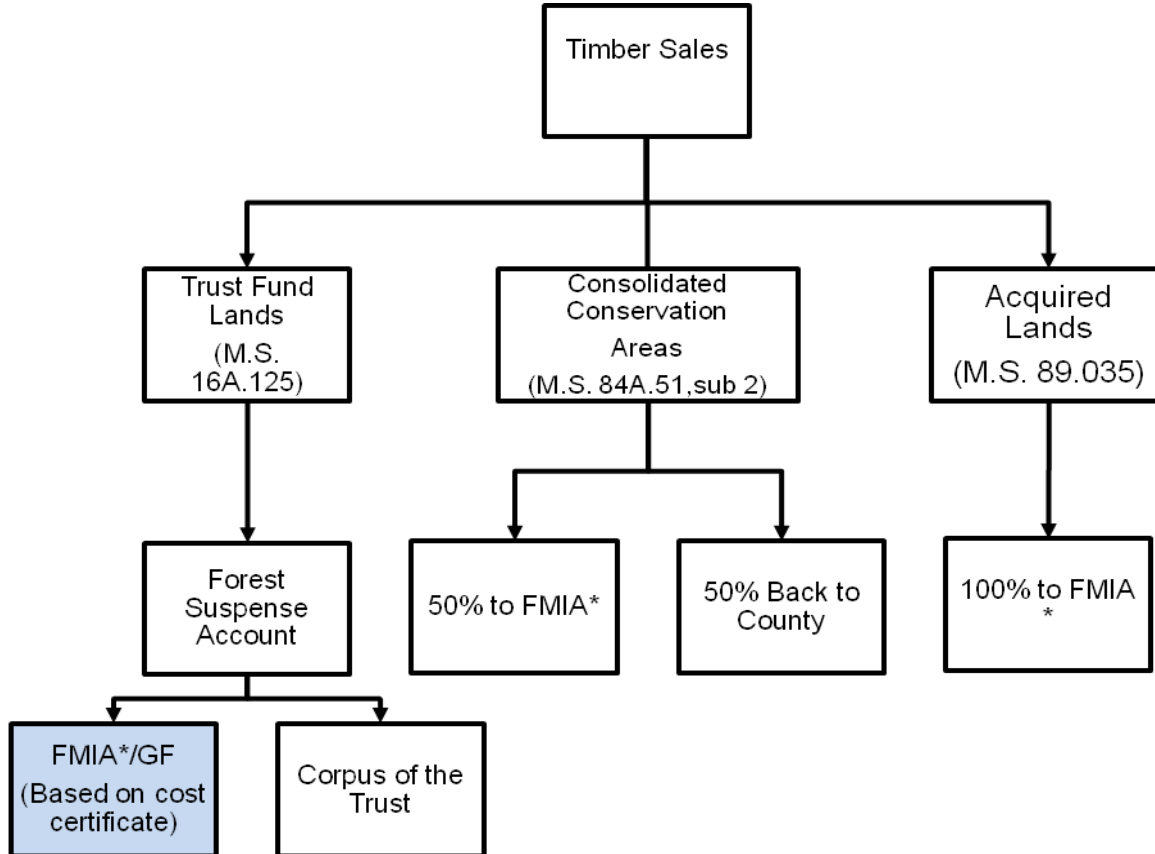
The large increase in volume offered/sold in FY2008 was due to the re-offering of sales forfeited in 2007.



Due to the timber market collapse that began in August of 2006, the average price per cord sold for state timber dropped 60% in FY2009 compared to the value received in FY2005. The subsequent revenue for cords scaled remained relatively flat rising slightly in FY2005 and FY2006, but declined in FY2007-2010 to where the current average price of wood harvested is about the same as it was 10 years ago.

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*The purpose of this chart is to identify a historical perspective on certified costs.



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

M.S.16A.125, Subd 5(d)