

**PILT Report Commissioners' Advisory Group
February 3, 2012
Meeting Notes**

In attendance:**Advisory Group Members****County Commissioners:**

Duane Bakke (Fillmore County)
Todd Beckel (Lake of the Woods County)
Bob Fox (Renville County)
Rich Sve (Lake County)

State Agencies:

Mike Roelofs (MN Management & Budget)
Dave Schad (Dept. of Natural Resources)
Susan Von Mosch (Department of Revenue)

Township Representatives:

Jill Hall (New Solum Township Clerk)
Kermit McRae (Caledonia Township Supervisor)

Other subject matter experts:

Keith Carlson (Minnesota Inter-County Assn)
Brian Connors (Itasca County Assessor)
Gene Merriam
Ron Nargang

Technical Workgroup Members

Susan Damon (DNR Lands & Minerals Div.)
Henry Erdman (St. Louis County)
Annalee Garletz (Association of MN Counties)
Greg Knopff (MN Senate)

Bob Meier (DNR Commissioner's Office)
John Ongaro (St. Louis County)
Kent Sulem (Association of MN Townships)

Facilitators: Judy Grew and Shelby Peacock (MMB, Management Analysis & Development)

Introduction and welcome

Tom Landwehr, Commissioner of the Department of Natural Resources, welcomed everyone to the meeting and expressed his appreciation for their participation on the group. He explained the purpose of the meeting was to respond to a legislative charge. He noted that the DNR is neutral on PILT issues, and that the issue is more of a local government aid issue. He noted that the process should not be considered a referendum on public land or how much land the state should own. Rather, it is more a matter of what we do with it when we have it. He also noted that this is not a consensus process – the group does not need to make a consensus decision. The advisory group will provide feedback for an executive branch report to the legislature. A final note that he made was that PILT is a complicated process, not unlike a house that has had a lot of additions and lean-tos built onto it over the years.

Introductions were given.

Review of Legislative Charge

The group reviewed the language from Minnesota Session Laws that requested the report on PILT. Judy Grew asked if there were any questions or comments about the legislative charge.

- Mike Roelofs thought that the purpose was unclear and requested some clarification.
- Dave Schad echoed the commissioner's comment that they will do their best to represent on everyone's views, and that if the group cannot come to consensus, they will note any divided opinions.
- Kermit McRae asked what led to the request for the report. Kent Sulem and John Ongaro, who had followed PILT issues during the session, replied that efforts were made to modify PILT but they weren't able to come to an agreement. One of the main issues was the rising costs of PILT.
- Duane Bakke noted that there was a recent legislative change the funding – the inflationary adjustment on one type of payments was removed.
- Todd Beckel added that other payments are adjusted when there is a redetermination of land values every 5 years. This is one explanation for the rising costs.
- Susan Von Mosch said that a recent report of the Office of the Legislative Auditor (OLA) pointed out that PILT does not have a clear legislative purpose.
- Susan Damon said that group members would be provided a link to the OLA report, or they will provide a paper copy to anyone that requests it.

PILT Report Process, Timeline/Meeting Schedule, and Ground Rules

Judy Grew explained that over the course of the meetings the group would address one aspect of the legislative charge at a time. Today the group would receive background information and get started on discussing the purpose of PILT. The purpose discussion would probably continue at the next scheduled meeting.

Some proposed ground rules were:

1. Focus on the current topic
2. One conversation at a time
3. All participants are equal
4. Raise your hand to talk – the facilitator will keep track of speaking order
5. Agree on what impact words mean
6. If you don't know the meaning of a term, ask!
7. Test assumptions and inferences
8. Explain the reasons behind your statements, or questions
9. Focus on interests, not positions

There were no additions to the proposed ground rules. Other meeting process items were:

- **Alternates.** If any members anticipate sending alternates to the meetings, please make sure you keep your alternative up to speed on the issues, so that we do not need to spend time reviewing matters that have already been discussed. If you have an

alternate that you would like to receive group e-mails, please send their name and address to Susan Damon.

- **Communications.** Communication will be done through e-mail, but if you prefer mail, please let Susan know. The DNR is also preparing a web site for the study, and group members will be informed when it is ready.
- **Visitors.** The meetings are open for the public to observe.
- **Documentation.** Documentation will consist of meeting notes – there will be an opportunity to review previous meetings notes at each meeting.
- **Preparation.** Meeting organizers will try to distribute any reading material to you at least 5 working days before each meeting.

PILT Overview

Susan Damon gave an overview of PILT. A copy of the Powerpoint presentation was in member materials, and will be posted to the web site. A few of the questions and clarifications during her presentation were:

- The Land Utilization Project (LUP) land is not owned by the state – it is leased from the Federal government
- The Goose Management Croplands are in, and adjacent to, the Lac Qui Parle game refuge.
- There are two payment rates for acquired national resources land – the greater of \$5.133 per acre or $\frac{3}{4}$ of 1 percent of the appraised value of all of the acquired natural resources land within the county. Most payments are now made under the “ $\frac{3}{4}$ of 1%” rate due to increasing land values over time. Todd Beckel noted that the break point is about \$685 per acre of land value.
- Only five counties are currently receiving the flat per acre payment.

Discussion: The purpose of the payment system and the criteria for payments

There were two aspects to this discussion – one concerning the purpose of PILT historically, and another looking into the future.

What has been the purpose of PILT? (Legally, and as understood)

- *What did you hear during Susan’s presentation?*
- *What do you remember? (Some of you were there when PILT was adopted.)*
- *What have you been told? (Even if you weren’t there, what is the folklore? Why do people say we have PILT?)*
- Keith Carlson had to leave the meeting early, and he gave feedback on his perceived purpose of PILT earlier in the meeting. He believed the purpose was to reimburse the counties and townships for taxes. He noted some recent events that affect the discussion – the state’s recent large acquisition by easement from the Potlatch corporation, (rather than a purchase), is of concern, as it provides nothing to compensate local government.

- Gene Merriam was a member of the State Senate when PILT was adopted. He noted that at the time the government was growing and there was an expansion of state land and parks. However, they were encountering resentment and resistance from local government due to the loss of their tax base and due to the increased local government burden (such as stress on roads and emergency services). If more land was going to be acquired in the future there would need to be compensation to local government, and they recognized something needed to be done.
- Dave Schad noted that the image of the DNR was at stake – if we were going to acquire land, we needed to compensate local government.
- Gene Merriam noted that at the time, revenue was growing, the times were good, and Roger Moe, Doug Johnson, and Gerald Willett led the charge for PILT.
- Someone who had read the 1989 report from the LCMR asked if natural resources development was part of the conversation to establish PILT. Gene Merriam did not recall that this was the major emphasis – it was more a matter of compensating local government for the lost taxes.
- Duane Bakke noted that for some counties with a high percentage of land in public ownership, PILT paid for the county to have a land manager.
- Todd Beckel said it also compensated counties for some of the restrictions that were placed on use of the public property.
- Greg Knopff clarified that the school trust PILT payments do not go to school districts (and instead goes to counties) because PILT payments were made due to an overall concern about property tax relief. The state was also funding the schools through the K-12 funding formula.
- Greg Knopff said further that the distribution for tax forfeited land is different than that for state-owned natural resources land, so you can see that the intent is different. Also, the counties get a share of revenues from Con-Con lands in addition to PILT payments, and so they shouldn't be compensated at a higher rate.
- Mike Roelofs said that he had trouble rationalizing the reasons of the overburden of services with the loss of property tax revenue – aren't these really the same thing?
- Todd Beckel and Rich Sve responded to Mike's question by explaining that large public land holdings can stretch out the distance required for public services – roads need to be longer (for paving and plowing), and fire and ambulance access is more difficult. Todd also responded that in counties with larger percentages of their land in public ownership, it can put a burden on the existing taxpayers. He noted that if the share of public land were distributed evenly throughout the state's counties, this taxpayer strain would not be such an issue and we could give up PILT. But the distribution is falling on some counties disproportionately.
- Likewise, another member noted that the benefits to counties of public land ownership could offset some of the burdens.

- Todd Beckel noted that disproportionate land values also influence the impact on counties. For example, Koochiching County gets 83 cents per acre.
- Judy Grew asked Gene Merriam if he recalled whether the aspect of disproportionate impact was part of the original discussions. He recalled that it was.
- At the conclusion of this discussion, Rich Sve passed around a map that showed the percent of public land in Minnesota counties.

What should be the purpose of PILT, as we look into the future? This conversation did not conclude, but some initial responses follow.

- Bob Fox said he agreed with the purpose of compensating local government. He also noted that some people are opposed to the idea of having public land because they don't understand that PILT compensates for it. He thought that better public education should be part of the discussion. Kermit McRae noted that would be important as more Legacy money flows.
- Susan Von Mosch said she agreed with the idea of compensating counties for their lost property tax base. Later in the meeting, she noted that she thought that this compensation should be tied to the value of the land.
- Todd Beckel said he wanted to clarify that it is not just "DNR" land that we are discussing – it is *state* land, and the state as a landowner should pay its taxes. He noted that Minnesota has the 3rd largest public land holdings of all states, after Alaska and the Federal Government.
- In response to Susan Von Mosch's point, Todd Beckel said he was concerned about bringing the value of the land into the purpose. He was concerned that would create incentives to purchase more land in Northern Minnesota, where land is cheaper, and that there was already plenty of public land up there.
- Ron Nargang was concerned about adding additional purposes onto the most basic one of compensating local governments for state land. He thought that adding additional purposes such as compensation for increased services might lead to disagreements over details.

Future meetings: Needs for statistics, research and analysis

Members had been provided with a packet of studies in advance of the meeting, and additional materials such as newspaper article excerpts were provided at the meeting. Members were asked if there were any additional statistics they needed, or research or analysis that should be done. The suggestions were:

1. A copy of the Legislative Auditor's Lands Report, <http://www.auditor.leg.state.mn.us/ped/pedrep/nrland.pdf> was sent to members. Chapter 4 of that report pertains to PILT, Appendix A pertains to federal PILT payments and Appendix B pertains to 2009 state PILT payments.

2. Maps with the location of PILT-eligible lands by type. (We can also include acreage data in map legends.)
3. A breakdown of per acre payments by county.
4. A bar graph or data with PILT payments going back to 1979 showing what payments would have been *if adjusted for inflation*.
5. Information on the impact of school trust lands on PILT, including marginal lands, peat lands, and the influence of the sale of school trust lands.
6. Federal PILT. Was the state rate of $\frac{3}{4}$ of 1 percent set based on the federal PILT rate? If so, is the federal government still using that rate? Are the feds paying their fair share? (Some of this is covered in the Legislative Auditor's report, but county representatives may be able to provide more current information.) The U.S. Department of the Interior has a PILT search function on its website, which can generate reports by fiscal year: <http://www.nbc.gov/pilt/pilt/search.cfm#search>
7. An analysis of what has been driving the increases in payments between 2000 and 2010. This analysis should note the relative influence of land acquisition vs. inflation vs. increases in assessed land values over those years.
8. Information from local members on their issues with PILT. Specifically, any disparities in payment amounts by land type.

Next meeting

The next meeting will be held on Friday, February 24, from 9:00am-noon, in the same room (6th Floor North and South Conference Rooms, DNR Headquarters, 500 Lafayette, St. Paul).

The group will continue the PILT purpose discussion and will begin to discuss the rate of payments for specific classes of natural resources lands.