

**PILT Report Commissioners' Advisory Group
February 24, 2012
Meeting Notes**

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

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)
John Hagen (Department of Revenue)

Township Representatives:

Jill Hall (New Solum Township Clerk)
Kermit McRae (Caledonia Township Supervisor)
Mike Hoops (Silver Creek Township)

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)
Jack Paulson (Senate Counsel)

John Ongaro (St. Louis County)
Kent Sulem (Association of MN Townships)
Mary Robison (MMB Budget Division)
Beau Berentson (Association of MN Counties)
Shelby McQuary (Senate counsel)

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

Announcements and Review of 2.3.12 meeting summary

Judy Grew welcomed everyone to the second meeting. She went over the meeting minutes from 2.3.12 to fill in any missing information. Revised meeting minutes will be posted.

Susan Damon shared some announcements:

- A website has been developed for the advisory group. It should be up today (2.24.12). Meeting minutes will be available on the site. The address is:
<http://www.dnr.state.mn.us/aboutdnr/legislativeinfo/pilt/index.html>

Action items from 2.3.12 meeting**Requested data and analysis (Susan Damon)****i. Maps of PILT-eligible land by type**

- Susan Damon displayed maps on the screen (and in participant packets) showing the locations of PILT-eligible land in the state. An important caveat printed on the maps is that the shaded areas are mapped to the "PLS forty and government lot, even when the

record may be to less than a forty or government lot.” This means that the map will show shading for a whole 40-acre parcel, even if the state owns only a portion of it. The DNR does not have GIS (geographic information systems) shapefiles of all of these lands at a sub-forty level. She also explained that the first three maps (Acquired: Public Hunting Lands, Non-Hunting Lands and Con-Con) are paid at the highest PILT rates (the greater of \$5.133/acre or $\frac{3}{4}$ of 1% of appraised value of all acquired natural resources land within county).

- **MAP 1 - Public hunting lands** (see map) are scattered throughout the state, with a few more in the south and west.
 - Dave Schad asked why Camp Ripley wasn't on the map. Susan explained that Camp Ripley isn't DNR land isn't in the DNR land records system.
 - Gene Merriam asked if “public hunting lands” is statutorily defined. Dave Schad responded that it is not. However, the DNR's Wildlife Management Areas (WMAs) are included in these public hunting lands, and WMAs are statutorily defined.
 - Someone asked what the source of funding was to purchase these lands. Both Susan Damon and Dave Schad explained that there are have been various sources – the Game and Fish Fund, the Outdoor Heritage Fund, state bonding, trusts and gifts.
- **MAP 2 - Acquired Non-Hunting Lands** are mainly water access, state parks and recreation areas, and parts of state forests and are also scattered throughout the state.
 - The source of funds for acquisition for these lands also varies – they include state General Fund, bonding, gifts, Environment and Natural Resources Trust Fund and the Outdoor Heritage Fund.
- **MAP 3 - Con-Con lands** were acquired by the state in the 1930's after defaults on bonds for drainage ditch construction and have a denser concentration in Northwest counties.
- **MAP 4 and Maps 4a-4e - DNR-Administered Other Natural Resources Lands** Include School Trust, University Trust, DNR-Administered Con-Con, Volstead and Acquired) are reimbursed at 64.2 cents/acre. Most of this land is School Trust land.
- **Map 5 - County-Administered Other Natural Resources Lands (Tax Forfeit)** are reimbursed at \$1.283/acre.
- **Map 6 - LUP Land** (land the state leases from the federal government) is reimbursed at \$1.283/acre.
- **No map provided - Lake Vermilion, Soudan Underground Mine State Parks** (no map provided) is reimbursed at a rate of 1.5% of appraised value of the land.

ii. Impact of school trust land on PILT

- A slide was displayed that was not included in the handouts – it will be put on website. The gist of the analysis was that School Trust lands are a huge proportion of the acres for PILT, but (due to their low reimbursement rate), a small proportion of the costs.
- Mike Roelofs asked that a slide from the 2.3.12 meeting, on page 10 – 3rd slide, be broken down to show the acres over the payments. Susan said she could do that, but that the law changed over the years making comparisons difficult.

iii. Average per acre payment by county (FY2010)

- A table displayed the FY 2010 PILT payments under M.S. 477A. For each county, it showed their total acres, total payments and their resulting per acre payment.
- The table showed that Ramsey and Hennepin counties are outliers when it comes to per acre payments, at approximately \$1227 and \$197 respectively. The Ramsey acres are primarily for Fort Snelling State Park, which Dave Schad noted is difficult to value, and the payment significantly increased after the last five-year reassessment, from about \$105,000 to about \$496,000.
- Gene Merriam noted that about \$2.5 million, or ten percent of the payments, were going to the Twin Cities metro area, and that it would be interesting to see how that compared to the distribution in 1980.
- Brian Connors noted that the tools and focus for assessment have gotten better for assessors to accurately value large tracts of land. It would not be good to assume that the re-evaluation for Ramsey County was inaccurate – the value of the land may have been understated for years.

iv. Inflation analysis of PILT from FY1979-FY2010 (Dept. of Revenue handout)

- A table in the handouts showed the actual PILT payments between 1980 and 2011, and the hypothetical payments that would have been made had the per acre payment rates been adjusted for inflation starting in the base year (1980).
- There was no inflation adjustment allowed in the original law, so between 1979 and 2001 the payment was \$3 per acre. In 2001, an inflation adjustment was added, but the rate adjustment did not do a full lookback to 1980 – rather, it looked back to 1994. It also did not make retroactive adjustments to account for inflation that had happened between 1979 and 1994.
- The rates have been frozen once again in law at the \$5.133/acre rate.

v. Analysis of PILT cost increases 2000-2010 (Preliminary)

- Between 2000 and 2010 there was an increase in PILT payments of more than \$14 million. We will need to do some more analysis of what caused the increase, but we know that about 86 percent of the increase was in the acquired lands category. We are also fairly certain that the increase is due more to increases in the assessed value of acquired lands, rather than due to new acquisitions.

Federal PILT presentation (John Ongaro)

John Ongaro provided a handout and overview of federal PILT. The handout provided came from the Legislative Auditor's Office, and John also discussed federal PILT with former Congressman Jim Oberstar. Oberstar had worked for Congressman John Blatnik, and was involved in the original drafting and introduction of the Federal PILT legislation. It did not pass when Blatnik was in office, but Oberstar was the chief author when it passed in 1975.

John noted a key difference in the purpose of Federal PILT, in that the federal government was compensating counties not only for services to these lands, but also for services to the federal employees and their families working on the lands. Service examples included solid waste, law enforcement, search and rescue, health care (for those injured in wilderness areas, and particularly for uncompensated health care for the uninsured), environmental compliance, firefighting and parks and recreation.

Another driving force behind the creation of federal PILT was that counties were getting revenue sharing payments from activities on the lands – when the economy was good they got more; when the economy was bad they got less. Federal PILT was meant to equalize that, and to reduce complaints from local governments. He noted that a paragraph in the OLA report states that the federal payments were intended to stabilize revenue payments to local governments and lessen the interest local governments expressed in the management of federal land.

There are two formulas used for Federal PILT – one for Entitlement Land and another for Land Acquired for the National Park Service or National Forest Wilderness Areas. Nationally, \$381 million per year is spent; in Minnesota, 26 counties get \$2.9 million per year. A table from the OLA report handout showed the county distribution.

John stated that St. Louis County feels they are losing PILT money that they should be receiving. There is a deduction in the formula for entitlement land that subtracts the amount received by the local unit of government in the prior fiscal year under other "payment laws." Due to the BWCA funds that are being deducted from their PILT payment, St. Louis County went from \$1.3 million to \$279,000. This happened because they do a re-assessment of the land every ten years, and the value of the BWCA had increased by 300%. John said when he spoke with Oberstar, Oberstar said that wasn't their intent in 1979.

Gene Merriam asked for clarification on John's statement asking if the payments and the deduction due to the BWCA ended up just being a "wash?" John replied that that yes, technically that is true, but that the BWCA shouldn't be subtracting from the formula, since it is not revenue generating. Other federal lands that deduct from the formula are revenue producing. Gene asked if it was more of a fairness issue. John said yes – if the county did not have the BWCA it would get a straight payment of \$2 per acre. John suggest that we follow the federal formula of calculating PILT payments on whether the land is entitlement land and whether it was acquired for the National Park System or National Forest Wilderness Areas.

John pointed out that like the state, the federal payments didn't always keep up with inflation. In 2008 they instituted the Emergency Economic Stabilization Act that required full payment of PILT authorized amounts through 2012.

Dave Schad made an observation that LUP lands are Federal Lands that are administrated by Fish and Wildlife Services. DNR manages land through a lease but there is still a state PILT fee. We are managing their (Federal) land and paying the PILT payment. In the overall picture of things it's not a big issue but shouldn't the federal government be paying that?

Todd Beckel stated that when the land was making timber money, the state was making money off the federal land and was sharing in the proceeds. But now doesn't really make money off of timber.

Issues of concern to local governments related to PILT (LGU representative members of Commissioners' Advisory Group and Technical Group)

County assessments

- John Ongaro stated that they would like to look at the OLA report (pages 66-71) that implied county assessors over-assess land in order to de-bunk that notion. They would like to address those issues and want to check and balance that.
- The Department of Revenue might have information that would address that question.
- Dave Schad and Todd Beckel said that, to that point, they would send out an Association of Land Commissioners document.
- Someone noted that the OLA report was focusing on the counties that get the flat rate and that they may not have meant to imply that counties over assess land.

PILT payments compared to tax rates

- Kermit McRae said he would like to see a further explanation of PILT payments vs. tax rates. He is most interested in the southeast corner of the state. He was referencing Figure 4.3 on page 68 of the OLA report, and was noting that some PILT payments were less than the tax rate.
- Todd Beckel thought this could be due to differences in land valuation. He also provided a handout (PILT Payments for 2010 to be Paid in July 2011).

Follow-up from 2.3.12 meeting discussion: The purpose of the payment system and the criteria for payments

Judy Grew summarized that at the February 3 meeting, the purpose of PILT from a historical perspective was covered, but the group did not conclude its discussion on the purpose of PILT as we move into the future. We had settled on “compensating local government for state land.” The group took some time to read notes on the purpose of PILT from the previous meeting, and then Judy asked if they had additional thoughts or recommendations.

- The legislative amendment creating the Outdoor Heritage Fund will lead to more acquisitions; the historic resistance to DNR acquisition will be amplified. (Keith Carlson)
- Advisory and Technical group members have been hearing increased local resistance to public land acquisition. 13 counties have passed resolutions on no net gain or loss. (Jill Hall; Annalee Garletz - AMC)
- We need to be careful about the term “compensating” - the key is to fully and adequately compensate, and we need to identify what we mean by that. (Kent Sulem)
- Land values change from their value at purchase to their value after acquisition (Kent Sulem)
- The LSOHC will add \$3-5 million to PILT obligations after 25 years (if their current acquisition trends continue). However, a LSOHC analysis notes that they likely won’t come close to those acquisition numbers. (Bob Fox; Greg Knopff)
- A caution, based on our discussion at the first meeting, that we should not debate the merits of acquiring public land, but it’s important to note that PILT helps address public concerns with the acquisition. We need to focus on the point we have been assigned to do. (Dave Schad)
- The Vermilion project didn’t make this easier. It created a “Super-PILT” that makes it difficult to move forward. (Todd Beckel)
- The 1989 DNR report (provided to the group earlier) determined two purposes of PILT:
 - To alleviate the impact of public land ownership on local tax bases; and
 - To provide for natural resource development (infrastructure, equipment) on county-administered landThe second part might not be as relevant now – much of the infrastructure has been built. (Dave Schad)
- There was a clarification that it is only *natural resources* land that receives PILT; other types are factored into state aid payments. There was a discussion about broader payments at the time PILT was authorized, but Local Government Aid (LGA) was going up during that time. However, townships haven’t received LGA since about 2002. (Greg Knopff; Kent Sulem; Jill Hall)

Judy asked if the group wanted to expand from “compensating local government for state land” to include something like “alleviate the impact on local government?” Some responses were:

- A case for this – in Lake County, timber sales are down, but we still have the management expenses for that land. In the bigger picture, we have to sell timber to make it viable, and that’s not working right now. \$1.28 per acre is adequate if timber sales are up. (Rich Sve)
- Note also that this amount is frozen at \$1.28 (Keith Carlson)

A potential wording of a purpose statement (for now, we might need to revisit it after subsequent discussions):

For acquired natural resources land, PILT compensates for the loss of tax base and, in some cases, for the local expenses of managing land.

Discussion: The rate of payments for specific classes of natural resources lands

The discussion questions on this topic were similar to that for the purpose discussion. How have the rates been developed in the past? Historically where do these rates come from? And what should they be in the future?

Historical rates

- Based on a review of the impact study, we assume they followed the federal rate in establishing the rate for PILT at ¾ of 1%. Historically, the rates developed over time: (Susan Damon):

Acquired hunting land and game refuges		
The greater of:		
35% of gross receipts from special use permits & leases (1930)	50 cents/acre 15 to 50 (1983)	¾ of 1% of appraised value (1979)

- The ¾ of 1% was taking the federal lead. Also, politically it was workable. (Todd Beckel)
- There have been incremental changes to lands and payments. Not that much separates them – all are tax forfeited – but Con-Con lands had additional restrictions placed on them. (Keith Carlson)
- Camp Ripley never got PILT – local interests asked for it years ago, and it was approved because the land is used for hunting (2005). It is not clear why they received PILT for only half the rate of others. (Dave Schad)
- Substantial resistance led to the “Super-PILT” for Vermillion and Soudan – the resistance was due to the development potential of that land. (Keith Carlson)
 - Local interests saw a 300 lot development potential with an anticipated \$100 million value post-development (John Ongaro)
 - Even with the “Super-PILT” the county ends up losing money (compared to a scenario where the land would have been developed?) the formula for Vermillion and Soudan also requires them to share the PILT funds with school district and townships – that is not the case for the regular PILT formula (Keith Carlson; John Ongaro)

- The Goose Management rate was also due to local resistance (Lac Qui Parle). However, the amount of land is 3,175 acres/ \$61,451 (not a large portion overall) (Susan Damon)

What type of payment structure makes sense moving forward? Do we still need this many rates? Any other comments?

- Some lands produce revenue, and this is an important consideration in setting a payment rate – could we have a table for the next meeting of revenue producing lands? What revenue sharing is happening on what lands. The PILT should be lower for revenue producing lands (Dave Schad)
- What about the schools? The new PILT rate for Lake Vermilion sends part of the payment to schools. The situation for school funding has changed. (Rich Sve) However, it is not certain that potential school revenue would make a difference, due to equalization formulas that operate on school levies. (Keith Carlson). Mike Roelofs stated there is little local school district revenue lost due to equalization.
- It would be good to know what really distinguishes county administered and acquired lands (e.g., counties can generate revenue from sales of timber). (Keith Carlson)
- 64.2 cents makes sense for school trust land, but perhaps does not for other classes of land in that category. It really doesn't make sense due to the shift of the designation of school trust land. (Todd Beckel)
- There are two types of county administered lands, those you can't sell or get maximum revenue on, and those you can get revenue from and can sell. (Gene Merriam)
- Larry Kramka or Kathy Lewis could answer some of these questions, maybe they can attend a future meeting. (John Ongaro)
- Inflation and the effects of the five year re-evaluation should be talked about – the property tax basis vs. a cost of service basis. Property taxes are not cost of service based. (Mike Roelofs)
- The State Auditor compares in lieu to property taxes that would be paid if the property were not publicly owned. Properties can have a low tax due to the classification system. This can vary based on the use of the property. (Keith Carlson or John Hagen)
- How do you avoid jumps in valuation like Ramsey County's?
- A set payment rate with an inflator makes sense. (Mike Roelofs)
- Communities should be able to bar acquisition. (Todd Beckel)

Next meeting

The next meeting will be held on Friday, March 23, 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 payment rates discussion, and will begin discussion on the adequacy of the current funding for payments and the impact of additional land acquisition on the funding.