

**PILT Report Commissioners' Advisory Group
May 24, 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)
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:

Beau Berentson (Association of MN Counties)	Bob Meier (Dept. of Natural Resources)
Susan Damon (DNR Lands & Minerals Div.)	John Ongaro (St. Louis County)
Annalee Garletz (Association of MN Counties)	Mary Robison (MN Management & Budget)
John Hagen (Department of Revenue)	Kent Sulem (Association of MN Townships)
Greg Knopff (MN Senate)	

Presenters: Drew Imes (Department of Revenue) and Amanda Dirnberger (Dept. of Natural Resources)

Facilitators: Judy Grew and Kelly Lehr (MMB, Management Analysis & Development)

Announcements and Review of 4.27.12 meeting summary

Judy Grew welcomed everyone to the fifth meeting. She went over the meeting minutes from 4.27.12 to fill in any missing information. Revised meeting minutes will be posted on the website, along with all the meeting materials.

<http://www.dnr.state.mn.us/aboutdnr/legislativeinfo/pilt/index.html>

Results of Department of Revenue survey of counties about the FY10 PILT re-assessment.**John Hagen and Drew Imes, MDOR**

Drew Imes went over the results of the survey MDOR conducted regarding the FY10 PILT re-assessment via a PowerPoint presentation. Below is a summary of the group discussion following the presentation.

- Gene Merriam asked how frequently counties questioned where the numbers reported in the survey came from. Drew replied this did not occur very often.
- Drew and John Hagen clarified that if there was no difference between 2B or 2C lands, this means the county *either* did not report any 2B or 2C lands *or* the values reported to DNR and MDOR agreed.
- John Ongaro asked that if \$800/acre isn't a big difference, then what would be considered a big difference. John Hagen and Drew replied that MDOR does not yet have any figures to make a comparison, so right now we do not know what would be considered a big difference.
- Bob Meier asked whether the reports given to MDOR and DNR are given to them by the counties. Drew said this was the case and that, theoretically the two reports should reconcile.
- Gene Merriam asked about the significance of the difference between the DNR and MDOR per acre values. He commented that if he looks at the far right column and see a percentage difference, what does this mean? Drew replied that the significance is in trying to determine the private vs. state parcel per the assessors. For the purposes of this report, he used the percentage differences as an indicator to see if there is something to look into.
- Brian Connors tried to help attendees understand the reason there may be differences in MDOR and DNR values, explaining that as an assessor he does not report different numbers to MDOR and DNR in that when it comes to DNR vs. non-DNR lakeshore lands, he value them the same. However, if DNR lands have more lakeshore acreage, that frequently pushes up the value of the land, which in turn might create a discrepancy between MDOR and DNR values.
- Drew reminded everybody that the 2008 change in how lands were classified led to changes in land values between 2005 and 2010. This means we are often not comparing the same kind of land in 2005 vs. 2010.
- Drew next reviewed the changes in Ramsey County's values. In 2005, the value was \$14 million, whereas in 2010 the value was \$66 million. The reason behind this increase was a change in the value of Pike Island. Parts of Pike Island are under water for part of the year, and Ramsey County omitted an underwater factor in its 2010 valuation calculation. They will use the 2005 value going forward.
- The group discussed when it is appropriate to include the underwater factor in valuation calculations. Todd Beckel commented that one element to consider is whether the property would be considered developable if it was private property. In the case of Pike Island, it would not be considered developable.
- The group noted that McLeod County reported a significant drop in PILT valuation in 2010. Drew explained this occurred because McLeod County used an inappropriate valuation calculation approach. John Ongaro observed that using different valuation methods could be dangerous, asking what happens if McLeod has a new assessor in

2015 and they use a different valuation method, resulting in increased land values and a corresponding increase in their PILT payment?

- The group discussed other notable items from the survey, starting with MDOR/DNR value per acre. Todd County had a 2,524% increase from 2005 to 2010. Drew noted that Todd County reported 181 acres with 10,150 feet of lakeshore access. This makes it a high value property. Drew commented that most of the value/acre differences are due to counties having high lakeshore values.
- Brian Connors observed that in many private parcels surrounding water, only the backland is reported to MDOR, whereas with the DNR, the land including the cabin is reported. Jill Hall mentioned she has had some landowners approach her that would like to sell their land to the DNR.
- The group turned its attention to the question of how should land be valued? They agreed that ideally, the land should be valued the same way taxable land is valued. However, the problem is that MDOR and DNR (and county assessors) would need to look at the land parcel by parcel. This is time prohibitive and not a practical approach.
- Dave Schad asked how much time assessors spend assessing non-taxable exempt land. Brian Connors noted that computers and aerial photography simplify the task, and they are spending as much time as they can on this. John Hagen suggested most assessors do not spend nearly the time on exempt and non-taxable land as they probably should and that they spend more time on taxable land.
- Ron Nargang noted that DNR lands have larger water frontage than those reported per the MDOR reports. This should not be the case – aren't DNR and MDOR reports covering the same land? Drew replied that DNR has PILT land, while the MDOR abstract has county-wide reports and is not just PILT land. The MDOR reports often contain more residential and forest land than PILT land. Todd Beckel agreed, stating MDOR lands have non-hunting land and that they contain water/lakeshore access sites. This in turn drives up the value of the lands in their reports.
- Todd Beckel commented that lakefront should actually be called waterfront because what is often titled lakefront actually includes streams, rivers, etc. John Ongaro asked how water accessibility is considered in land valuation. John Hagen agreed that water accessibility should be considered in land valuation. He added that we need to begin this discussion by first identifying all parcels by the assessor and then determining which have water access.
- Duane Bakke asked whether the counties should send the State tax statements for each PILT parcel, adding if the state doesn't like the value there's an appeal process to remedy the situation. Ron Nargang asked whether this is done at the time of DNR acquisition or at some other time. Duane replied that it does not matter who owns the land because the County Assessor sends the state the tax statement. Todd Beckel asked whether this leads to room for land value manipulation by the Assessor. Duane said he would hope not, that Assessors should be assessing lands the same regardless of whether or not they are PILT parcels. Ron Nargang added that he hasn't heard anything about County Assessors cooking the books, so to speak.

- Susan Von Mosch asked how new PILT parcels are valued. Susan Damon said they are appraised at the time of acquisition. Gene Merriam commented that the group is mixing two questions. The first question is how do counties assess the value of their PILT and non-PILT lands. The second question is how to assure fair value for PILT lands.
- Judy Grew summarized Drew's key findings as follows:
 - i. MDOR vs. DNR differences in land valuation are mostly due to differences in the amount of lakeshore and riverfront value between the two. One large difference was due to an error (Ramsey County).
 - ii. The 2005-2010 MDOR vs. DNR differences are mostly because of the law change - the MDOR reports are looking at different lands than DNR.
- Ron Nargang asked if this group makes recommendations, is MDOR prepared to provide details on the standard method of valuation for PILT land? John Hagen said yes, adding that DNR needs to:
 - i. Create maps of PILT lands
 - ii. Identify lakeshore/lakefront lands by parcel, and
 - iii. Develop a more user-friendly reporting system.
- John Ongaro commented that MDOR knows how to create maps of lands for taxable parcels; does MDOR know how to do this for non-taxable parcels?
- Dave Schad told the group that valuation was not an issue before 1995. In looking at the amount of time and effort going into land valuation, is there a simpler way to do this? He suggested perhaps the group should consider going back to a flat rate to save effort and work while ensuring counties are being fairly compensated when land is taken off the tax rolls.
- Drew said the standard method would be ideal, but then counties (and Assessors) would need to defend where they got the numbers they report. Brian Connors suggested technology should be utilized to develop a more user-friendly reporting system which would, in turn, help counties (and the State) get accurate data.
- Todd Beckel asked whether they should treat all of the land the same; Can the State both afford and defend this approach? Kent Selum reminded the group that the legislature needs to determine what they are willing to fund. With that said, Kent encouraged the group to not let fiscal costs and consequences influence what ultimately goes in the report.
- Bob Meier asked whether an earlier report stated how much a flat rate would cost, adding he thought the figure was somewhere around \$6.5 million. Judy Grew confirmed the ad valorem report was issued on February 15 1994. Kermit McRae agreed with this, adding he thought the \$6.5 million would be paid using Legacy Amendment funds.
- Susan Damon will post the PowerPoint slides on the PILT website.

PILT in other states – Amanda Dirnberger, DNR

Amanda Dirnberger, a student worker with DNR, presented the results of the research she had conducted on PILT in other states. Her discussion highlighted the following items:

- Wisconsin has 2 types of PILT payments: 1) land acquired before 1969 (counties are paid \$0.88/acre) and 2) land acquired after 1969 – counties are reimbursed for the full property tax amount the first year with a 10% reduction each year thereafter until the payment is down to 10% of the amount of the original property tax value. Dave Schad asked what the reimbursement rate was for land acquired after 1992. Amanda said counties are paid the fair share, that there is no property tax payment loss for the counties.
- Michigan has a two-tiered payment system which depends on whether the land was acquired before or after 1933. Michigan's PILT funding source also depends on whether the land was acquired before or after 1933.
- Three states (Indiana, North Dakota and Nebraska) have PILT that is equal to private taxation.
- Ohio's PILT depends on the land use type.
- Iowa used to have PILT but no longer does. They simply pay counties the regular (private) tax amount. Amanda observed that Iowa also only has 700,000 acres of PILT land.
- Connecticut and New Jersey's PILT is based on the percentage of land owned by the state.
 - In Connecticut, if more than 50% of a county's land is owned by the state, the PILT payment is 100%. If less than 50% of the county's land is owned by the state, the PILT payment is equal to 45% of the amount of taxes that would be paid if the property were not exempt from taxation.
 - In New Jersey, PILT payment is dependent upon the percentage of the county's land that is owned by the state according to the following scale:
 - 20%: \$2/acre
 - 21-40%: \$5/acre
 - 41-60%: \$10/acre
 - 61%+: \$20/acre
- Utah and Pennsylvania have straight PILT rates. Utah pays \$0.52/acre for school or institutional trust lands and is paid out of Utah's school trust revenue. Pennsylvania pays \$0.40/acre to townships, counties and school districts plus \$0.80/acre as a supplement.
- There are differences in how land is assessed. Most states use county assessors. Alaska, Pennsylvania and Massachusetts have state agencies assess land values (Fish & Wildlife for Alaska, Forestry for Pennsylvania and Watershed District for Massachusetts).

- Todd Beckel asked whether PILT payments in southern states take tribal lands into account. He also wondered whether tribal trust lands are exempt from paying taxes. Amanda said she did not know but would find out.
- Wisconsin and Michigan are the most comparable to Minnesota in the types of PILT lands they have.
- Amanda realized she had left Minnesota data off of her tables and agreed to provide the group with Minnesota data. She will also provide the group with information on whether tribal trust lands are exempt from paying taxes as well as electronic copies of the handout.
- Amanda's email is Amanda.E.Dirnberger@state.mn.us.

Proposed alternative to PILT for Outdoor Heritage Fund acquisitions (Kent Sulem, MN Association of Townships; Annalee Garletz, MN Association of Counties)

Kent began the discussion by saying when the Outdoor Heritage Fund (OHF) bill was being drafted, 20% was originally thought to have been set aside for PILT payments. The question he looked at when trying to develop an alternative funding mechanism for PILT was what can we do to fund the entire tax obligation up front when properties are initially acquired? That is, not only would the land acquisition/purchase price need to be funded, but 30 years' worth of tax obligations would need to be funded. The resulting proposal is to use OHF funds to develop a PILT trust fund.

Per Kent's handout explaining this approach, for new land acquired through the Outdoor Heritage Fund or the Environment and Natural Resources Trust Fund, a dedicated trust fund would be set up through the State Board of Investment (SBI). The investment earnings from that trust fund are dedicated to local governments to replace their lost property tax revenues based upon the land's tax burden when it was removed from the tax rolls. Under this system, no General Fund dollars are used.

At the time the land is acquired, the purchaser is required to set aside an amount equal to thirty times the property taxes payable on the property in the current year. This would be in addition to the purchase price of the property. This money is then deposited with the SBI. Conversations with SBI indicate there would likely be no administrative costs for managing these trust funds.

SBI assumes an average 8.5% rate of return over the long run on their investments. The earnings from these trust funds would go directly to local governments and special taxing authorities in a manner directly proportional to the amount of revenue the entity was receiving from the property at the time it was removed from the tax rolls. Additional earnings would be used to grow the principal of the trust fund, in order to protect against market fluctuations and increase trust fund payments to keep pace with increased tax value of the land.

Dave Schad asked for clarification on the first example in the handout. Specifically, given that the 1st year's taxes are taken off the top, would payments be made based on the projected 8.5% rate of return? Kent replied that the Trust can only make payments up to the amount of the return and only the amount of the tax bill. Consequently, the PILT could be less if the earnings are low.

Dave Schad asked whether all of the money would go into a single fund or if separate trusts would be established for each purchase. Kent said it could be done either way and that the details would need to be worked out with the SBI.

A member pointed out that the OHF can only be used for land acquisition, not to pay property taxes. Kent Sulem countered that while environmental groups say establishing a PILT trust fund supplants state payments, he thinks this is not the case. Greg Knopff asked how the Trust would get around constitutional language. Kent explained that the purchase price should include the full obligation, which includes the property and related taxes. It is up to DNR lawyers whether this should include tax obligations. Kent added that his intent was to find a way to pay for a state benefit, make this self-sustaining and keep PILT as a separate obligation that isn't an additional general fund burden to the State. If the Trust becomes self-sustaining, it could be a mechanism for how to fund prior PILT purchases.

Gene Merriam asked if this is trying to replace an annual tax burden in perpetuity, wouldn't you discount the up-front 8 ½% return? Kent said he would check with the person that did the number crunching.

Kent added that the break-even point is 28.5 years, rounded up to 30 years to account for fluctuations in annual returns.

Susan Damon asked whether they used taxable market value vs. appraised value. Kent said they deliberately used taxable market value to avoid hikes in values that could result just because the State wants to purchase land.

The main battles over this proposal would be the original source of funding for payments and the assessed market value at the time of acquisition (taxable value). One advantage of this approach is that it gives counties a payment for lands purchased by non-profits. Ron Nargang observed that this approach could easily change relationships between non-profits and counties.

Susan Von Mosch asked Kent to clarify that this proposal is for newly acquired parcels. Kent said that is true but it could be expanded to other areas. Dave Schad said the group would not need to weigh in on the appropriateness (legality) of this proposal. It is up to the legislature to decide the proposal's legality. He suggested that the group recommend this as a viable alternative approach and that it should be used for new acquisitions without actually recommending specific funding sources.

Todd Beckel expressed concern that this approach would separate newly acquired vs. existing properties, adding that if this happens, “we’re done” in terms of the PILT base. Kent countered that the group first needs to look at newly acquired properties but they can also look at existing PILT obligations. Duane reminded the group that this approach gets the PILT obligation out of the legislature’s hands and out of the state’s budget.

Gene Merriam commented that he sees basic issues with this approach: 1) how much money will this cost, 2) how will the cost be determined, and 3) who gets the money. Kent replied that the counties will get the money and the counties will get to decide the distribution. He added that the distribution will be limited to current recipients, but there is no reason this couldn’t be modified. Essentially, wherever land is being acquired, that is where the payments will go. Kent added that for general fund dollars, if the legislature limits the money devoted to PILT, this will also limit how much land will be purchased.

Rich Sve commented that he was not sure the lack of discounting in the model is appropriate. He also thought this model ignores any benefits that might accrue. Todd Beckel observed that there is a trust issue inherent with this approach, saying that if the Trust ROI is as good as predicted, how can we trust that the legislature will continue to fund PILT? Further, how can we trust that the Trust fund will not be raided during hard budget times? Duane Bakke concurred, adding that we would need to ensure the trust fund is set up to these types of raids from happening.

Group Discussion: Alternative methods of reimbursing local units of governments for state natural resource lands

Judy Grew began the discussion by reminding the group that they can provide the legislature with options. Susan Damon added that the group can also provide recommendations and preferences.

Gene Merriam began by saying he prefers the original methodology of a flat rate per acre. Ron Nargang said he prefers staying with the current approach (per acre basis instead of valuation basis) but fully funding PILT. Gene commented that MDOR tells us there is a wide variety of PILT reporting and approaches. He suggested the State should do the valuation or at least have State oversight of valuation.

In the interest of quality and fairness, Jill Hall said she would like to avoid having somebody from the southern part of the state doing northern assessments (and vice versa).

John Ongaro expressed interest in the New Jersey approach, saying so much of the focus is on the 15% PILT acres but they haven’t focused on DNR or county acres. This means there isn’t an inflationary factor in PILT payments.

Gene Merriam commented that he thinks the group needs to clarify the different types of PILT land (acquired, hunting, etc.). Mike Roelofs added that funding sources (other than the general fund) need to be addressed.

Dave Schad stated he prefers moving to a simplified system that has fewer rates and fewer categories. This would make PILT simpler, more transparent and easier to communicate. Bob Fox asked Dave if he would consider Iowa as an example. He replied that Iowa would be the extreme, noting that Minnesota currently has nine land types, multiple payment rates, etc. It is hard for counties to know if they are getting a fair deal.

Brian Connors mentioned that nine of the land types are covered by two statutes and three subdivisions. Is there any way we can get down to two classes and a single statute? Dave Schad observed that the trick with getting this down to two classes is to make sure you don't have both winners and losers.

Jill Hall said the County Auditor's job is to break the payment down to municipalities (determine payment distribution). Townships often only get 10% of the payments. Judy Grew reminded the group that payment distribution is one of the subjects of July's meeting. Kermit McRae reminded Judy to be sure to include Kent's proposal from today in the list of alternative methods to consider.

Todd Beckel suggested the group should consider a range of land values to account for the wide variety of land values throughout the state. He urged the group to consider whether this would be a simpler approach, whether it would be in the best interest of the state and whether compensation should be done by zones or regions. Duane replied that the County Assessors provide the different classes of land as well as the average value of the land that was sold. Rich Sve suggested that instead of using zones, perhaps the group should think of tiers, similar to what the Wetland Conservation Act uses for wetland replacement.

John Ongaro asked whether the tiered approach was in the original law along with an inflationary factor. The three tiers were \$0.375/acre, \$0.75/acre, and \$3/acre. Todd Beckel suggested maybe the group should revisit this option at the 1976 rates with an inflation adjustment. Ron Nargang asked if this approach is adopted, how do you decide where to apply the different rates? Todd Beckel countered that this is just a starting point for discussion purposes.

Group Discussion: Review of Advisory Group analyses/recommendations thus far and recommendations for changes to rate structure

Judy Grew asked the group to weigh in on whether they prefer an ad valorem vs. flat-rate approach and to list the pros and cons of each method. Brian Connors began by saying he is in favor of a value-based approach, adding that we would need a compliance measure to ensure adherence to existing valuation standards. He suggested one compliance measure could consist of spot checking adjacent or similar properties.

Rich Sve said he would like to see the assessment method simplified. This would include simplifying the way acquired land is valued, coming up with an ID number for all acquired parcels and determining what is owned by the state, especially with respect to waterfront properties.

Ron Nargang said the group needs to discuss what to do with waterfront properties. Todd Beckel added that wetlands have a high value but wondered what the public value of wetlands really is. Dave Schad said private wetlands have a low tax value (approximately \$200/acre), but the tax value is much higher if it is public land. He said wetlands are a loophole to manipulate the land value, adding that a tiered system would help eliminate this loop hole.

Gene Merriam said a value-based approach is ideal because it will compensate local government units for the value they've given up by removing land from their tax rolls. The problem with this is whether the cost of achieving the ideal is truly worth it? In contrast, the attraction of a flat rate approach is that it can be unfair but you reduce bureaucratic costs.

Rich Sve stated the group needs to keep in mind the fairness not only to local governments but also to the taxpayers. Using Lake County as an example, he asked who picks up the tax burden when so much of a county's land is state and federally owned.

Ron Nargang asked whether we can combine Todd and Gene's approaches. For example, we could have a tiered flat rate payment for counties that have certain percentages of their land owned by the state as follows:

- 41%+
- 21-40%
- 10-20%

Brian Connors observed that Nobles County (0.99%) and Scott County (2.68%) would be in the same class. The loss in tax capacity to Scott County would be much greater than for Nobles County, thereby penalizing Scott County residents more than Nobles County residents. Ron Nargang asked whether the loss will make a difference to Scott County. Kent Sulem suggested that the group needs to consider the impact on localities, not necessarily to the counties.

Susan Von Mosch told the group that one other thing to consider is the recent increase in property tax payments. Would a tiered approach increase property taxes even further? Ron Nargang suggested the group try to find a way to make a better payment so property taxes do not increase.

Ron suggested the following tiers for new acquisitions:

- Less than 10%: \$11/acre
- Next tier: \$6/acre
- Etc.

Gene Merriam asked whether Todd's 3-tier approach goes in the opposite direction. Todd said with a tiered approach, counties will know up front what they will get for new acquisitions. Todd offered something different, saying if you lock all payments in at \$20/acre, it would save \$4,088,677 a year in PILT. This would preserve value-based compensation but caps payments. Some counties would see their payments drop, others would see theirs increase.

Judy Grew asked whether the group would like to keep going, stop (if consensus is not possible) or whether there was a consensus on this issue. John Ongaro suggested that numbers be run on Todd's proposal to see how much money is saved and to see who the winners and losers are. Todd further explained that public hunting and non-hunting lands would be capped at \$20/acre. Camp Ripley would be \$2/acre, con-con and acquired land would come in at \$10/acre. John Ongaro suggested they could take the money from the winners and pay down the losers. Bob Fox asked whether capping includes an inflationary factor. Todd replied it did not and that they would need to add it to the other pieces of the model.

Judy Grew asked whether there were any quick wins on the PILT rate table (can we eliminate or combine any of the options).

- **Acquired Hunting Lands**: Susan Damon and Todd Beckel asked if the \$2,700 payment is worth the bureaucracy that comes with this? Gravel leases are often based on gross receipts instead of acreage. The group agreed to move this into $\frac{3}{4}$ of 1% calculation and only do a one-time calculation for this payment.
- **DOT Wetlands**: Susan Damon observed that wetland replacement really only occurs in Polk County. Could they move this into the $\frac{3}{4}$ of 1% category? The group said no, keep it as it is.
- **LUP Lands**: These are federal lands leased and managed by the State. Dave Schad suggested the federal government should be paying PILT. Ron Nargang countered that this isn't going to happen.
- Ron Nargang suggested moving LUP lands, Camp Ripley, DOT Wetlands, Goose Management and Acquired Hunting into the Acquired category ($\frac{3}{4}$ of 1%).
- John Ongaro suggested they roll LUP lands into county administered. Ron Nargang countered this can't be done because of restrictions associated with the land. Ron added if a new category is created, that would eliminate 97A and you could move LUP lands into 477A.
- Bob Meier responded that if you create a new category, there are consequences with how the money is apportioned. Specifically, schools are impacted by eliminating 97A. He also observed that under 477A, hunting lands are apportioned the same as in 97A.
- Ron Nargang said he still wants to pursue dividing the state into four zones based on a percentage of state ownership. If we adopted this kind of a flat rate structure, we would need to discuss the different payment rates, possibly at the July meeting. Ron also said he likes the \$20/acre cap for counties that fall below the 10% of county lands in state ownership threshold. However, Ron said he would first like to develop a simpler system that make sense and then determine the cost structure/payment rates.

- The Technical Group members were asked if they would develop the different cost breaks. Ron Nargang suggested they could begin with the following structure, based on the percentage of county land in state ownership:
 - 10-20%: \$10/acre
 - 21-40%: \$8/acre
 - 41%: \$6/acre
- Rich Sve told the group that Lake County currently receives \$24/acre on acquired lands. This is 8-9% of their general levy. Under Ron's proposed rate structure, Lake County would only receive \$8/acre. Rich said he will look at Ron's proposed rates to see how this impacts Lake County.
- The group agreed to run two scenarios for the July meeting:
 - \$20/acre cap across the board, and
 - Ron's proposed structure

The group next reviewed Judy Grew's handout on 1) the adequacy of current funding for payments and the impact of additional land acquisition on the funding, 2) alternative methods of reimbursing local units of governments for state natural resource lands, and 3) Formula for distribution of the payments to local units of government.

The adequacy of current funding for payments and the impact of additional land acquisition on the funding: A majority of the group agreed that it does not want to comment on overall "adequacy." John Ongaro suggested the group should comment on overall adequacy, saying this shows the legislature that we should be receiving \$65 million in PILT. Rich Sve countered that "adequate" is a relative term and that it varies from county to county. Todd Beckel said averages can be deceiving and doesn't paint a full picture. Kent Sulem agreed, saying adequate is in the eye of the beholder. He suggested the group look at adequate in terms of lost tax revenue and its impact and benefit.

Alternative methods of reimbursing local units of government for state natural resource lands and the formula for distribution of the payments to local units of government: The recommendation thus far is that the formula should not include school districts in the distribution (except for the Vermillion/Soudan distribution). Judy Grew asked whether we need a school district representative for this conversation. She also asked whether state stakeholders should be part of the discussion on how counties distribute PILT or should the technical group tackle this question. Mike Roelofs asked whether schools are impacted by taking land off the tax rolls. In other words, how is the PILT broken up among schools, counties and townships? Susan von Mosch said schools are impacted by PILT when it comes to Vermillion and acquired hunting lands – the total PILT for these two components is approximately \$6.3 million.

Other – Consider PILT for easements if Blandin succeeds in reducing their valuation: Bob Meier told the group that the Office of the Legislative Auditor (OLA) is doing an evaluation on conservation easements. He suggested the group should delay addressing this issue until the OLA report is issued. Brian and Ron Nargang suggested the group scratch this question, with

Todd Beckel adding that we should let the legislature know we have concerns about the lawsuit.

Next meeting

The next meeting will be held Thursday July 26 from 9-3 p.m. The meeting will be in the 6th Floor North and South Conference Rooms, DNR Headquarters, 500 Lafayette, St. Paul). Agenda items will include discussion of the formula for distribution payments, capitalization rate for Kent's proposal and a continuation of the discussion on the two rate scenarios. A State Economist may be invited for the capitalization rate discussion.