



Department of Natural Resources Fact Sheet



2012 FACT SHEET School Trust Lands

Background on School Trust Lands in Minnesota

Minnesota has 2.5 million acres of trust lands remaining that are to be managed for the benefit of the schools. As required by the constitution and statute, these lands are managed by the DNR to maximize long-term economic return consistent with sound natural resources policies. The acreage is made up of approximately 1 million acres of peatland (without commercial timber value), 500,000 acres of low quality commercial timber, and 1 million acres of medium to high quality commercial timber. There are many acres with active or future mining potential. These trust lands are in addition to – and interspersed with – another 3 million acres of other lands owned by the state and managed by the DNR.

Proceeds from the sale of or revenues generated by leasing or other income producing operations on the trust lands are deposited into the Permanent School Trust Fund (Fund) managed by the State Board of Investment. Net revenues after deducting expenses are deposited into the Fund. In FY2011, net revenues distributed to the Fund through DNR management exceeded \$23 million, largely from mining royalties. In 2012, the Fund has more than \$700 million in a stock and bond portfolio. The earnings from investment are distributed to the schools. The fund realized a 12.3% return in FY2010 distributing \$23 million to K-12 schools (the latest public report).

Current DNR Management Protocols and Accomplishments

Criticisms have been directed at DNR regarding management of trust lands including:

- *DNR's conservation mission is an inherent conflict for a trustee that should maximize revenue generation.* DNR also has an economic development mission and has been managing timber and mineral lands for revenue generation for 100 years. Minnesota Statutes require DNR to manage trust lands for revenue generation "...consistent with sound natural resource practices." This is a legislative requirement,

however, that any trust land manager – DNR included – must follow.

- *DNR's timber management expenses are too high.* Critics point to a dramatic increase in administrative expenses during the past 5 years, and a dramatic decrease in revenues from timber sales. This is a function of accounting and of markets. To better reflect the true costs of management, DNR shifted to a cost accounting approach which increased reporting of expenses. Second, the market for timber crashed in 2008. As a result, during the last five years, net income from timber management on school trust lands has averaged around 16% of gross revenues. While this may seem low compared to other industries, timber management is a low-margin business. The most comparable private enterprise in Minnesota is Potlatch Corp., a publicly-traded company. It owns some 250,000 acres of land which generates revenue from timber and land sales, and surface leases. Its recent 5-year average net income is about 10% of gross revenues.
- *DNR uses trust lands like a "credit card" to pay for unrelated expenses.* DNR directs about 130 Full-Time Equivalents (FTEs) to the management of trust lands. These are foresters (about 100) and geologists, engineers, attorneys, and real estate professionals (about 30). Collectively, they manage 2.5 million acres, or about 20,000 acres (30 square miles) per FTE. This is an enormous workload. Furthermore, there is adequate reporting and oversight to ensure DNR expenses are appropriate. In both the divisions of Forestry and Lands and Minerals, employees use detailed cost codes by category of work set forth in statute to identify time spent on trust lands. The Legislature appropriates expenses for minerals management. Forestry-related expenses are reviewed by Minnesota Management and Budget and certified that the expenses have been incurred. The legislature also created the Permanent School Fund Advisory Committee (PFSAC) to advise the DNR on the management of trust lands and to

provide recommendations to the legislature for management of such lands. An annual Transfer Certification Report is submitted to the PSFAC for review related to forestry costs. The PSFAC also reviews DNR activities on an ongoing basis throughout each year. In 1998, the Office of Legislative Auditor also found that overall the methods used to allocate forestry management costs to trust land were reasonable.

- *DNR has no one person in charge of trust lands.* This is a fair criticism. In the past year, DNR has taken steps to rectify this issue by adoption of an “Operational Order” – an internal guidance policy – that specifies the intent and management goals of trust lands, how conflicts should be addressed with respect to trust obligations, how to ensure transparency and accountability, and proposes to create an internal trust manager that reports to the Commissioner’s Office to oversee all aspects of trust land management.
- *Many lands are “off-limits” for revenue generation.* Some lands cannot be managed for maximum revenue generation including those located in the Boundary Waters Canoe Area Wilderness (BWCAW), some statutory Scientific and Natural Areas (SNAs) established by the Legislature, or lands comprised of environmentally-sensitive habitats. These constraints, however, are generally beyond the direct control of DNR. For example, the BWCAW lands are under active negotiation with the U.S. Forest Service for a land exchange and sale. Other statutory limitations (e.g., Peatland SNA designation), can only be changed by the Legislature. When DNR policies prohibit use of trust lands (e.g., old growth forest), we are actively seeking ways to compensate the trust by purchase or a suitable exchange of lands.

Useful Policy Changes for Consideration

The following legislative changes could result in a higher return to the Fund:

- *Remove the requirement for trust lands to pay for fire suppression.* The DNR provides wildfire protection to some 22 million acres in Minnesota, including private, county, state and federal lands. For all these lands, except school trust lands, costs are paid by the general fund. State statute requires the trust to reimburse a pro-rated amount for protection of trust lands. In 2011, this amount was \$1.6 million. The legislature could remove the requirement, allow general funds to pay for trust

land protection, and return an immediate windfall to the Fund.

- *Remove the requirement for legislative approval for sale of riparian trust lands.* Currently, all sales of riparian trust land (e.g., lakeshore) must be approved by the legislature. This causes needless delay, and has resulted in lands being removed from sale consideration in the past. By eliminating this statute, DNR could more readily identify and sell valuable lands suitable for development.
- *Require recreational users (hunters, trail users, berry pickers, etc.) to pay for access to trust lands.* Trust lands are not generally marked by signs, and are often interspersed within huge forest complexes. It would not be economical to post signs around all trust lands (more than 15,000 miles of unsurveyed boundary), so a payment would be required. Options could include a general fund payment to the trust for these recreational uses, a surcharge on hunting and/or angling licenses, or a collection of additional fees from motorized and non-motorized trail users. Other states manage trust lands with a paid user pass.
- *Provide authority and resources to increase revenues.* The Utah trust administrator has a staff of 70 and an annual budget of \$18 million. Very few of these positions (3) are responsible for managing grasslands and timberlands. Most are for marketing, developing and contracting leases and sales of lands. With the above changes, and the funds and authorities Utah is provided, the DNR could greatly increase land revenue activities.
- *Reconfigure the PSFAC to provide greater expertise.* A Committee with members with specialized professional expertise on economic development (land development, mining, financial, forestry, etc.) would be in a better position to provide constructive advice and recommendations to the DNR. The legislature could require that the PSFAC have this specialized expertise.

Impact of Proposed Legislation (HF2244) on Trust Land Management

The HF2244 proposes to create “board of trustees” comprised entirely of legislators who would have sole authority to hire a trust land director and oversee trust land management. All activities related to sale and lease of trust lands and their resources would be transferred from the DNR to the trust land director.

The director would be able to hire staff as needed, contract for services, and would be housed in the Department of Administration (though reporting is solely to the board). The director is not required to contract with the DNR. HF2244 does not improve the opportunity to generate revenue and in fact will likely result in more expense as set forth below:

- *Bureaucracy will increase.* In addition to expanding the size of government, industry will be further burdened by having to coordinate with two different government agencies for access, sale and lease activity. The efficiencies and lower costs achieved through management of forest and mineral activities on adjacent tracts will be lost. There will be expensive duplication of expertise for forest and minerals management in two agencies where it now rests solely with DNR.
- *There is no obvious opportunity to generate additional revenue.* Statutory limitations hindering DNR revenue generation (e.g., fire suppression costs, hurdles for riparian land sales) stay in place under HF2244. Contracting with the DNR for services will not present any cost savings; all current costs – plus many now paid by general or other state funds – will continue. Major opportunities for revenue generation, now and in the future, continue to be from mining royalties. The DNR is the national leader on developing those resources.
- *Local governments will suffer.* According to state statute, only lands administered by the DNR are eligible for paying “in-lieu-of-taxes.” The shift of trust lands to another agency will eliminate \$1-\$2 million of state aid to local governments.
- *The proposal is unconstitutional.* Under Minnesota’s Constitution, the legislature appropriates and provides authorities, and the executive branch implements those directives. HF2244 breaches that separation of powers by giving a legislative commission the executive’s authority to manage state assets. Further, the Constitution limits the ability of legislators to serve on boards or commissions that manage state programs and HF2244 appears to violate that provision as well.

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