

SCHOOL TRUST LANDS VALUATION REPORT

Presented to the Legislative Permanent School Fund Commission

August 2017

Executive Summary

The 2016 Legislature appropriated \$200,000¹ for the Minnesota Department of Natural Resources (MNDNR) to develop, in consultation with the school trust lands director, a valuation process and representative valuations for the compensation of school trust lands. By January 15, 2017, the commissioner must submit a report to the chairs and ranking minority members of the house of representatives and senate committees and divisions with jurisdiction over environment and natural resources and education policy and finance on the Department of Natural Resources' progress in developing a valuation process, a description of the process to identify representative sample valuations, and the results of the representative valuations of school trust lands identified for compensation. This was a onetime appropriation granted July 1, 2016 and it expired June 30, 2017.

For the purposes of the valuation report, MNDNR began to analyze and sample data pertaining to four types of natural resource designations on Minnesota's School Trust Lands: Water Access Sites, Old Growth Forests, Peatland SNAs, and Native Prairie in the MN Prairie Plans cores, corridors, and complexes to arrive at sample valuations for compensation of these lands to the Permanent School Fund. The first valuation report submitted listed sampled values only for Old Growth Forests, with Water Access Sites and Peatland SNAs in process.

This report provides results of the sampled values for Water Access Sites and Peatland SNAs in addition to an update to the proposed compensation plan (provided in a summary table) in Section X and XI of the Minnesota's School Trust Lands: Biennial Report for Fiscal Years 2012 – 2013 (07.01.2011 – 06.30.2013) submitted to the MN State Legislature and the Legislative Permanent School Fund Commission. See MNDNR's [School Trust Lands Reports](#) webpage.

Results

Per the Minnesota's School Trust Lands: Biennial Report for Fiscal Years 2012 – 2013 (FY12-13 Biennial Report), when policies and designations prohibit (as opposed to restrict) long-term revenue generation, Minnesota law requires that the MNDNR establish a report (i.e. the FY12-13 Biennial Report) with a plan to compensate the Permanent School Fund through purchase, land exchange, or a plan to manage for long-term revenue generation. Compensation plans are not required for statutory prohibitions on revenue generation; but compensation costs are estimated for Peatland SNAs, the largest category of statutorily imposed prohibitions on revenue generation.

In Section XI of the FY12-13 Biennial Report, MNDNR documented in a summary table the policies, designations, and statutory provisions that prohibit and restrict long-term revenue capabilities on school trust lands.

¹ Laws of 2016, Chapter 189, Article 3, Section 3, Subd. 2

Information from that table was used to complete Table 1 of this document. A number of policy and designation-related prohibitions may require MNDNR to acquire school trust lands if the policies and designations are to be maintained. These acquisitions would need to be accomplished through condemnation proceedings. The MNDNR will also continue to plan for and implement land exchanges to reposition trust lands to enhance future revenues opportunities. In addition, where identified, MNDNR will continue to work to modify management strategies.

The table below summarizes the policy or designation, the acreage or sites of the proposed units, and the proposed compensation approach and the total amount of compensation – derived by our sample valuations – if applicable.

Table 1. Summary of Policy or Designation, Proposed Compensation Approach and Sample Valuation

Policy/Designation	Acres	Proposed Compensation Approach per FY12-13 Biennial Report	Sample Valuation
Candidate Research Natural Areas (cRNAs)	10,220	Modify management	N/A
Native Prairie Conservation Sites	7,000	None – possibility to generate new revenue	N/A
Natural Area Registry Sites	1,040	Condemn or Exchange – However, the current agreements are voluntary and non-binding	Appraisal or valuation needed at time of transaction – Random sampling does not apply
Old Growth Forest Complexes	17,300	Net present timber value payment for 17,300 acres	\$19,900,000 per sampling
	500	Condemnation on 500 acres	Appraisal or valuation at time of transaction – Random sampling does not apply
Day-use Areas (Pelican Beach on E Gull Lake)	40	Condemn or Exchange	Appraisal or valuation at time of transaction – Random sampling does not apply
State Parks (Hill Annex)	640	Lease payment is made	N/A
Recreation Areas (Cuyuna Country)	40	Open to future mineral extraction	N/A
State Forest Campgrounds		Camping fees collected go directly to PSF	N/A
State Trails		Most under lease, lease remainder	N/A
Water Access Sites	1,100 (177 sites)	Compensation via lease	\$13,500,000 per sampling
BWCAW	86,000	None – State Law	N/A
Peatland SNAs	51,000	None – State Law	\$25,500,000 per sampling

The total amount identified for the three sampled designations is \$58,900,000.

The DNR continues to seek appropriations to compensate the Permanent School Fund consistent with Minnesota law. This also includes funding for condemnations and land exchanges.

Compensation Report

As previously stated, when policies and designations prohibit (as opposed to restrict) long-term revenue generation, Minnesota law requires that the MNDNR establish a report with a plan to compensate the Permanent School Fund through purchase, land exchange, or a plan to manage for long-term revenue generation. Compensation plans are not required for statutory prohibitions on revenue generation.

M.S. 84.027 Subd. 18 (b) states the by July 1, 2018, the permanent school fund shall be compensated for all school trust lands included under a designation or policy provision that prohibits long-term economic return. The commissioner shall submit recommendations to the appropriate legislative committees and divisions on methods of funding for the compensation required under this paragraph, including recommendations for appropriations from the general fund, nongeneral funds, and the state bond fund. Any uncompensated designation or policy provision restrictions on the long-term economic return on school trust lands remaining after July 1, 2018, shall be compiled and submitted to the Legislative Permanent School Fund Commission for review.

A school trust compensation report will be completed and submitted to the Legislative Permanent School Fund Commission by January 15, 2019. It will report on any uncompensated designation or policy provision restrictions on the long-term economic return on school trust lands remaining after July 1, 2018.