

2009

MN Dept Of Natural Resources

Division of Forestry

[M.S. 16A.125 TRANSFER CERTIFICATION REPORT]

The contents of this report identify costs certified against trust lands and how the certified costs and net revenues from trust lands are distributed

Contents include:

- Forestry Transfer Certification Process
- M.S. 16A.125 Transfer Certification Report

Department of Natural Resources
Division of Forestry

M.S.16A.125 Transfer Certification Process

Minnesota Statute 16A.125, Subd. 5 direct which costs are certified against trust fund lands and how the certified costs and net revenues from trust fund lands are distributed. Only those costs paid from the General Fund and Forest Management Investment Fund are included in cost certification. Costs charged to dedicated funds and federal funds are excluded from the cost certification process. In addition, only revenues derived from Forestry activities are included in the process. Non-forestry revenues, such as mineral royalties are excluded.

MS16A.125, Subd 5 states:

Subd. 5. Forest trust lands.

(a) The term "state forest trust fund lands" as used in this subdivision, means public land in trust under the Constitution set apart as "forest lands under the authority of the commissioner" of natural resources as defined by section [89.001, subdivision 13](#).

(b) The commissioner of management and budget shall credit the revenue from the forest trust fund lands to the forest suspense account. The account must specify the trust funds interested in the lands and the respective receipts of the lands.

(c) After a fiscal year, the commissioner of management and budget shall certify the total costs incurred for forestry during that year under appropriations for the protection, improvement, administration, and management of state forest trust fund lands and construction and improvement of forest roads to enhance the forest value of the lands. The certificate must specify the trust funds interested in the lands. The commissioner of natural resources shall supply the commissioner of management and budget with the information needed for the certificate.

(d) After a fiscal year, the commissioner shall distribute the receipts credited to the suspense account during that fiscal year as follows:

(1) the amount of the certified costs incurred by the state for forest management, forest improvement, and road improvement during the fiscal year shall be transferred to the forest management investment account established under section [89.039](#);

(2) the balance of the certified costs incurred by the state during the fiscal year shall be transferred to the general fund; and

(3) the balance of the receipts shall then be returned prorated to the trust funds in proportion to their respective interests in the lands which produced the receipts.

Department of Natural Resources

Division of Forestry

The Division of Forestry identifies hours paid and dollars expended using a set of cost codes. The cost codes identify charges based on a specific activity (e.g. fire suppression, forest inventory, etc.) that created the expenditure. These activities are grouped into 5 main categories; protection, improvement, roads, management, and administration. Once costs are determined, both on trust and non-trust lands, then we prorate these costs on a per acre basis between school and university. Total state acres subject to forest management activities are ~5.6 million. Of this amount, ~2.4 million acres is attributable to trust fund lands. The certification process only applies to activities that generate forestry related net revenues. Activities, such as recreation and private land management are excluded from the process.

Five types of activities have an allocation process.

1. **Fire Protection:** We protect 22.8 million acres against wildfires. The cost of protecting Trust lands against wildfire is determined by multiplying trust land acres on a cost per acre basis.
2. **Forest Roads:** State forest roads provide access to some trust lands. Those lands that are within one-quarter mile of the road are served by the road. Each year, we calculate the cost of maintaining roads on a per acre basis. The cost of road maintenance for Trust lands is the number of acres of Trust land within one-quarter mile of a state road multiplied by the per acre cost of road maintenance.
3. **Management:** Management costs are allocated to all lands in proportion to the revenues received from those lands. Management costs consist of activities like inventory, and insect and disease. These costs are charged on a per acre basis based on a percent of trust vs. non-trust lands. Timber activities consist of timber sales preparation and administration. These timber activities can be directly tied to the revenue generated on trust lands. In FY 2008, 48 percent of all timber revenue was generated on Trust Lands, so the cost of managing them is calculated at 48 percent.
4. **Forest Improvement:** Each year, we calculate the amount of money we spend on improving the activities of forestland that we manage. These activities may include site preparation and stand improvement. The cost of improving forests is applied to the ratio of trust lands to non-trust lands.
5. **Administration:** Each year, we calculate the amount of administrative costs attributable to trust lands. A percent of administrative costs are charged to trust lands on a per acre basis.

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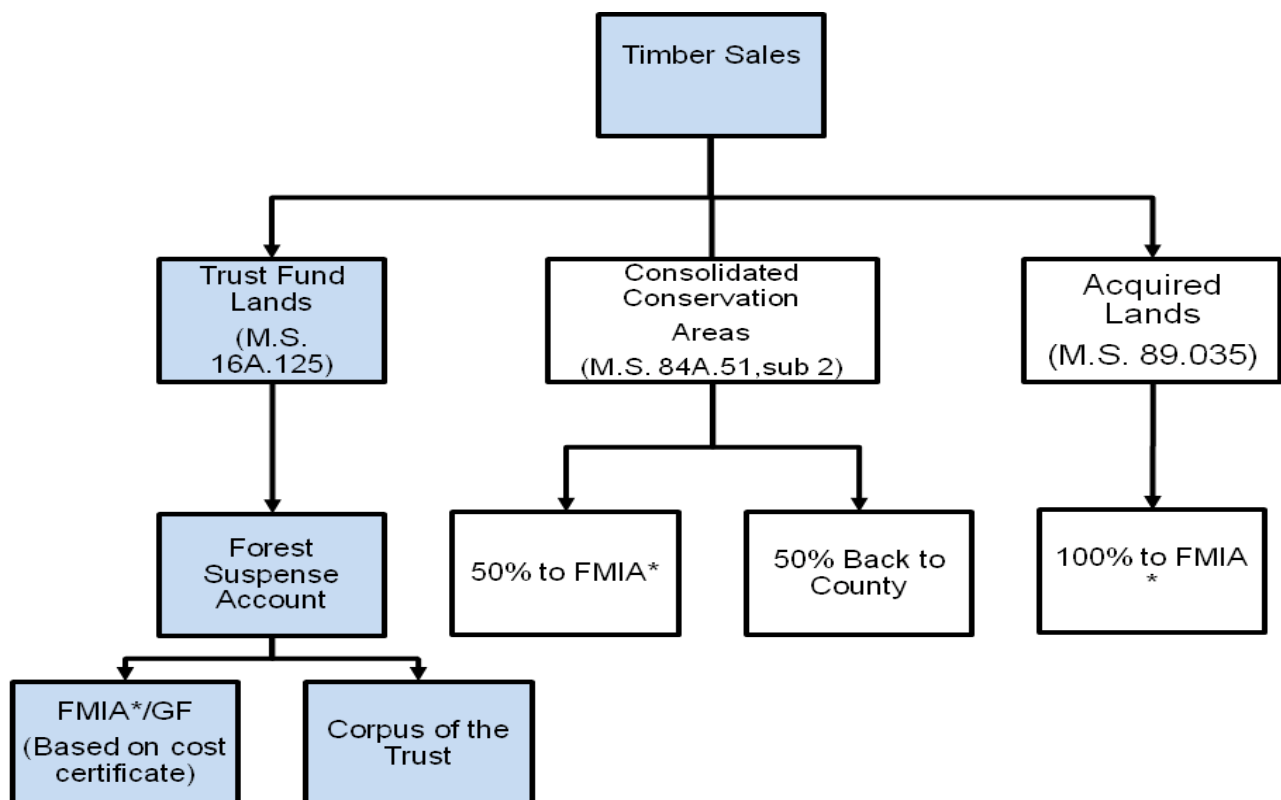
Division of Forestry

General Operations: In addition, general operations costs are “the cost of doing business”, the record keeping and other activities that support day-to-day operations. Support services, such as bill paying, training, and personnel management allow the certifiable activities above to be performed. Costs for support services, however, are difficult to tie to any specific activity. Therefore, we prorate general operations costs back to activities based on the percent of expenditures in each activity (ie: management, improvement, roads, and administration). Thus, if maintaining forest roads accounts for 5 percent of all expenditures, 5 percent of general operations costs are included in the cost of maintaining forest roads. Fire Protection is excluded from this calculation because these activities are charged directly to fire.

Finally, the trust land certification process was reviewed in FY1993 and FY1997 by the Office of Legislative Auditor (OLA). In the final reports issued by the OLA, the methods and process used were found “to be reasonable”. Directives and suggestions for change and improvement have been implemented.

Department of Natural Resources Division of Forestry

The purpose of this graph is to identify how Timber Sales revenue on Trust Lands flows through the suspense account and to provide a historical summary on the account. Per M.S. 16A.125, Subd 5., certified costs for administration and protection are transferred to the general fund. Costs for management, improvement and roads are transferred to FMIA. The balance is transferred to the corpus of the trust.



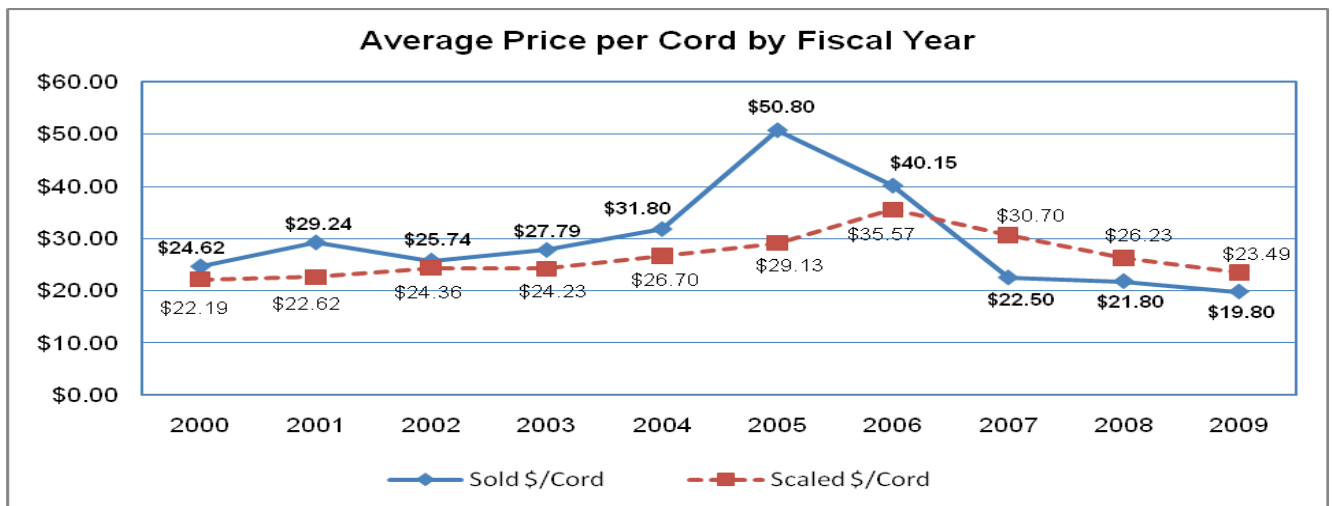
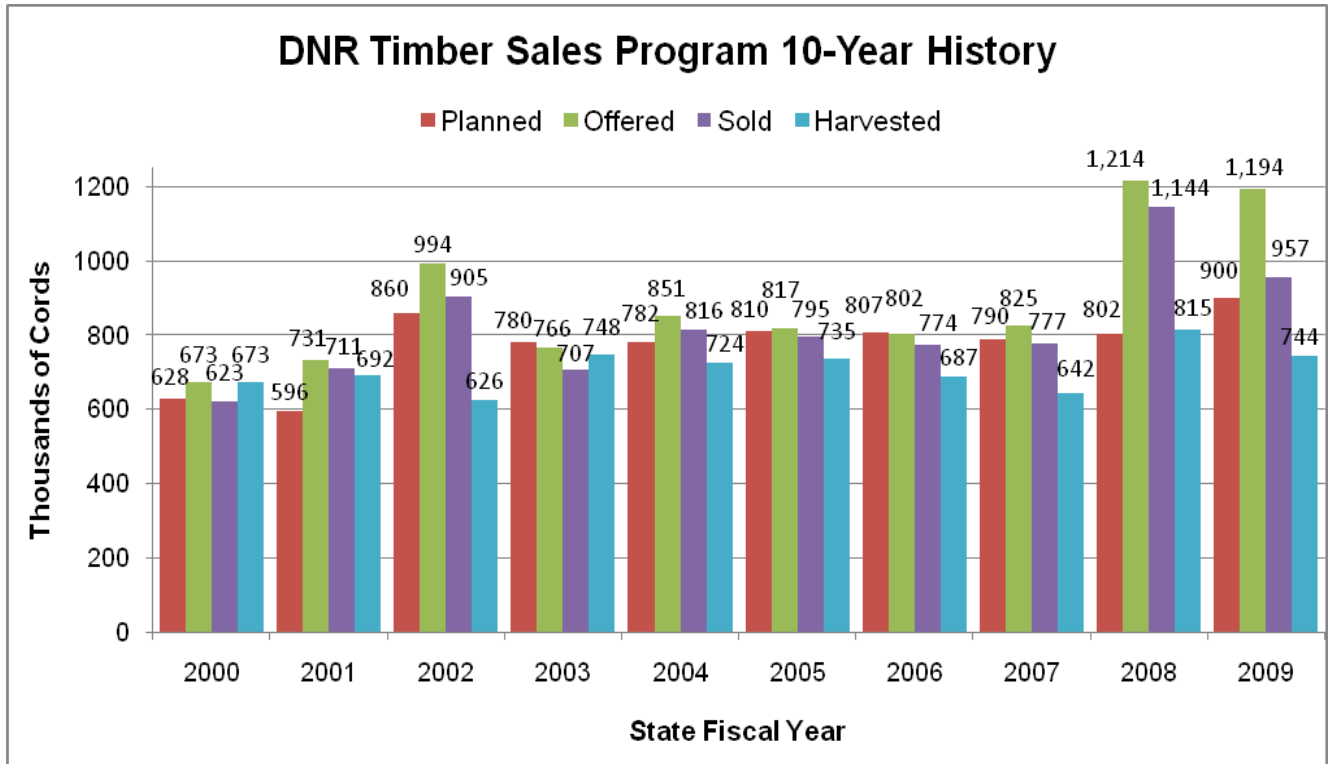
	2004	2005	2006	2007	2008	2009	5 Yr Avg
Total Timber Sales	20,635	20,930	25,518	22,582	25,315	19,561	22,781
Sales on Trust Lands	11,640	10,483	12,497	10,937	13,226	11,430	11,715
Transfer to GF	5,979	1,796	1,954	4,094	4,154	4,067	3,213
Transfer to FMIA	-	4,450	4,120	3,971	5,221	7,110	4,974
Transfer to Trust	5,816	4,362	6,362	3,091	3,813	231	3,572

Note: FY2005 is the first year of the Forest Management Investment Account

M.S.16A.125, Subd.5(d)-Costs certified in FY09 are actually transferred in FY10.

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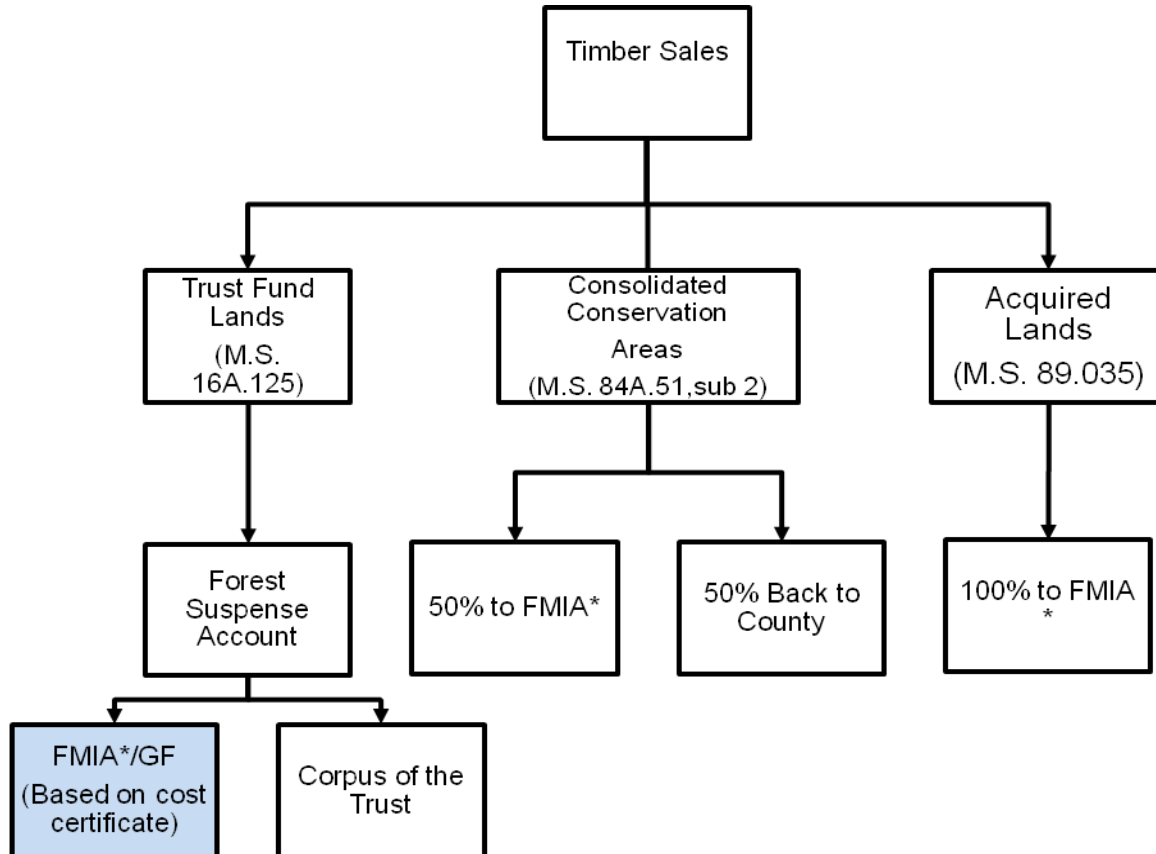
The purpose of the top graph is to show the historical trend for cords planned, offered, sold and harvested. The bottom graph shows the historical trend of the average price sold per cord and the average price received for cords scaled.



Due to the timber market collapse that began in August of 2006, the average price per cord sold for state timber dropped 60% in FY2009 compared to the value received in FY2005. The subsequent revenue for cords scaled remained relatively flat rising slightly in FY2005 and FY2006, but declined in FY2007-2009.

Department of Natural Resources Division of Forestry

*The purpose of this chart is to identify a historical perspective on certified costs.



Forestry Certified Costs (in thousands) FY 2004-2009							
	2004	2005	2006	2007	2008	2009	5 Yr Avg
Protection	1,583	1,114	1,616	2,753	2,224	1,844	1,910
Forest Management	2,633	2,912	2,907	2,940	4,400	6,010	3,834
Forest Improvement	1,219	1,491	798	949	780	1,026	1,009
Administration	521	682	719	1,342	1,930	2,223	1,379
Forest Roads	23	47	34	81	41	74	55
Total	5,979	6,246	6,074	8,065	9,375	11,177	8,187

M.S.16A.125, Subd 5(d)

Department of Natural Resources
Division of Forestry
Determination of MS 16A.125 Costs for Fiscal Year 2009

A Base Data from Division of Lands and Minerals, Division of Forestry and MMB Records

This includes base data to calculate costs for management, improvement, roads, administration, and protection

Acres of Permanent School Fund Land Subject to Cost Certification	2,375,302
Acres of University Trust Fund Land Subject to Cost Certification	18,516
Total Acres of Trust Fund Land Subject to Cost Certification	2,393,818
Total Acres of State Land Subject to Forest Management Activities	5,613,721

Total Forestry Expenditures paid from the General Fund and FMIA Fund	\$42,544,779
Forestry General Operations-FMIA (non-fire)	\$4,986,886
Forestry General Operations-General Fund (non-fire)	\$7,884,909
Direct Costs of Forest Management Activities (Management, Improvement, Roads)	\$11,139,014

B Protection Costs for Trust Lands

Protection includes fire prevention, readiness, and costs to fight wildfires. Federal fire reimbursements are excluded.

Current Year General Fund Costs for Protection	\$19,084,230
Previous Year General Fund Costs for Protection Paid After Close	\$32,828
General Fund Costs not associated with Protection (ie: prescribed burn, rural fire dept., fire interagency)	(\$1,159,803)
Sum of Allowable Forestry General Fund Direct Costs for Protection	\$17,957,255
Fire Protection Cost Collections which reduce General Fund Costs	(\$374,917)
Net General Fund Fire Protection Costs to be Allocated to Acres Protected	\$17,582,338
Total Acres of Land Receiving Fire Protection	22,829,589
Protection Cost Per Acre	\$0.770
School Trust Acres times Protection Cost Per Acre	\$1,829,353
University Trust Acres times Protection Cost Per Acre	\$14,260

C Management Costs for Trust Lands

Management includes preparing and administering timber sales, supervising harvests, maintaining up to date information on timber resources, and controlling forest pests and disease.

1 Forest Management Cost Determination:

Sum of Allowable Forestry General Fund/FMIA Direct Costs for Forest Mgmt	\$2,790,118
Management Portion of Forestry General Operating-FMIA Costs	\$1,249,123
Total Forest Mgmt Costs to be Allocated	\$4,039,241
Total Acres of State Land Subject to Forest Management Activities	5,613,721
Forest Management Cost Per Acre	\$0.72
School Trust Acres times Forest Mgmt Cost Per Acre	\$1,709,101
University Trust Acres times Forest Mgmt Cost Per Acre	\$13,323

2 Timber Sales Cost Determination:

Sum of Allowable Forestry General Fund/FMIA Direct Costs for Timber Sales	\$5,596,682
Timber Sales Portion of Forestry General Operating-FMIA Costs	\$2,505,609
Total Timber Sales Costs	\$8,102,291
Trust Land Timber Revenues as a Percent of Total Timber Revenues	53%
Timber Sales Costs Attributed to Trust Lands	\$4,287,329
Trust Land Timber Sales Cost Per Acre	\$1.791
School Trust Acres times Timber Sales Cost Per Acre	\$4,254,168
University Trust Acres times Timber Sales Cost Per Acre	\$33,162

3 Total General Fund/FMIA Forest Management Costs for Trust Lands:

Sum of Mgmt Costs for School Trust Lands	\$5,963,269
Sum of Mgmt Costs for University Trust Lands	\$46,484

Department of Natural Resources
Division of Forestry
Determination of MS 16A.125 Costs for Fiscal Year 2009

D Forest Improvement Costs for Trust Lands

Improving the forest includes ensuring regrowth following harvest, developing better varieties of trees, and promoting tree growth by thinning and removing competing vegetation.

Sum of Allowable Forestry General Fund/FMIA Forest Improvement Costs	\$1,662,597
Forest Improvement Portion of Forestry General Operating Costs-FMIA portion	\$744,337
Total Forest Improvement Costs	\$2,406,934
Total Acres of Trust Fund Land as a Percent of Total Acres of State land Subject to Forest Management	43%
Net Forest Improvement Costs Allocated to Trust Lands	\$1,026,371
Trust Land Forest Improvement Cost Per Acre	\$0.429
School Trust Forest Improvement Cost	\$1,018,432
University Trust Forest Improvement Cost	\$7,939

E Administrative Costs for Trust Lands

Administration includes many support activities that maintain efficiency and allow foresters to concentrate on managing the state's forests.

Sum of Allowable Forestry General Fund/FMIA Administrative Costs	\$576,715
Administrative Portion of Forestry General Operating-GF Costs	\$7,884,909
Administrative Costs Attributed to General Fund/FMIA Activities	\$8,461,624
Total Direct Trust Land Costs	\$8,954,066
Total General Fund/FMIA Direct Costs	\$34,083,155
Trust Direct Costs as a Percent of Total General Fund/FMIA Direct Costs	26%
Trust Portion of Administrative Costs	\$2,222,973
Trust Land Administrative Cost Per Acre	\$0.929
School Trust Administrative Costs	\$2,205,779
University Trust Administrative Costs	\$17,194

F Forest Road Costs for Trust Lands

Maintaining the forest road systems includes maintaining bridges, road surfaces, and right-of-way, and installing and maintaining culverts and signs.

Sum of Allowable Forestry General Fund/FMIA State Forest Road Costs	\$1,089,617
State Forest Roads Portion of Forestry General Operating-FMIA Costs	\$487,817
Total State Forest Road Costs	\$1,577,434
Trust Land Acreage as a Percent of Total Acres Served by Forest Roads	4.71%
State Forest Road Costs Allocated to Trust Lands	\$74,329
Trust Land Forest Road Cost Per Acre	\$0.031
School Trust Forest Improvement Cost	\$73,754
University Trust Forest Improvement Cost	\$575

Report Prepared By: Janet Cherney, Accounting Director, Forestry

Date: 11/01/09

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Division of Forestry**

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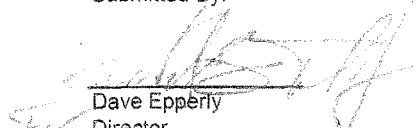
**M.S. 16A.125, Subd 5(1) Transfer Certification Report
Fiscal Year 2009**

		School Susp. Fund: 860 Appr: 012	Univ. Susp. Fund: 610 Appr: 010	Trust Land Totals ⁽¹⁾
12 Month Revenues	Net Revenue associated with Forest Management	\$11,225,552	\$204,908	\$11,430,460
12 Month Costs	Protection	\$1,829,353	\$14,260	\$1,843,613
	Management	\$5,963,269	\$46,484	\$6,009,753
	Improvement	\$1,018,432	\$7,939	\$1,026,371
	Administration	\$2,205,779	\$17,194	\$2,222,973
	Forest Roads	\$73,754	\$575	\$74,329
	Certified Forestry Costs ⁽¹⁾	\$11,090,587	\$86,452	\$11,177,039
12 Month M.S. 16A.125 Subd. 5(d) Transfers to Other Accounts ⁽²⁾				
	12 Month Transfer to the Forest Management Investment Account M.S. 16A.125, Subd. 5(d)(1) Transfer ⁽³⁾	\$7,055,455	\$54,998	\$7,110,453
	12 Month Transfer to the State General Fund M.S. 16A.125, Subd. 5(d)(2) Transfer ⁽⁴⁾	\$4,035,131	\$31,454	\$4,066,586
	Total M.S. 16A.125 Transfers ⁽³⁾	\$11,090,587	\$86,452	\$11,177,039
12 Month Net to Permanent Trust Funds				
	Net Revenues associated with Forest Management minus Certified Costs	\$134,965	\$118,456	\$253,421
	Revenues not associated with Forest Management	\$165,868	\$11,550	\$177,418
	Less Transfer to St Forest Suspense-Land Sales Legal citation 051 001 02 003 002 860	(\$150,000)		(\$150,000)
	Less Transfer to St Forest Suspense-Aggregate Legal citation 051 001 02 003 002 860	(\$50,000)		(\$50,000)
	Net Revenue to Trust Funds ⁽¹⁾	\$100,833	\$130,006	\$230,839

Notes:


- (1) Totals may not add due to rounding
- (2) Total of all transfers is limited to the lesser of: (a) certified costs or (b) forestry revenues
- (3) Total of forest management, forest improvement, forest road costs
- (4) Total of protection and administration costs

Submitted By:


Dave Epperly
Director
Div of Forestry

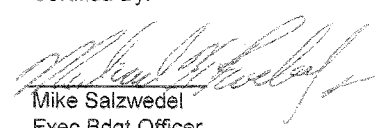
Date: 12/1/09

Reviewed By:


Denise Anderson
Administrator
DNR OMBS

Date: 12/1/09

Certified By:


Mike Salzwedel
Exec Bdgt Officer
MN Mgmt & Budget

Date: 12/1/09