

2022 M.S. 16A.125 Transfer Certification Report

The purpose of this report is to provide an annual accounting of the gross and net income to the Permanent School Trust Fund and University Trust for state administered forest management. This report details the costs associated with those management activities which are required to produce timber revenues and certain surface land use revenues before the net profits are transferred to the trusts. In addition, this report identifies Minnesota Office of School Trust Lands and other non-forestry expenditures drawn from the State Forest Suspense Account within the Permanent School Fund to fully document how Forest Suspense Account revenues from state managed trust lands are distributed.



Division of Forestry

April 4, 2023

Cost of Preparation

Name of Legislative Report: Transfer Certification Report

Minnesota Statute Reference: M.S 16A.125, Subd. 5(d)

Prepared by: Don Deckard, Ph.D., State Forest Economist

Department of Natural Resources, Division of Forestry

Desk: (651) 259-5287

Email: donald.deckard@state.mn.us

Description of Cost	Further explanation if necessary	Amount
Staff time (salary & fringe)	120 hours @ \$57/hour	\$6,840
Duplication	immaterial	-
Other	immaterial	-
TOTAL TO PREPARE REPORT		\$6,840

Statutory Provisions

Minnesota Statute 16A.125, Subd. 5 specifies which types of forestry costs are certified against trust fund lands and how the certified costs and net income from trust fund lands are distributed. Only those costs paid from the General Fund and Forest Management Investment Account that fund state land forest management are included in the cost certification. Costs charged to dedicated funds, federal funds, and capital budgets are excluded from the cost certification process. In addition, only revenues derived from forestry funded activities are included in the process. Non-forestry revenues such as: damage costs, forest campgrounds receipts, land crossing license fees, late charges on surface leases, and wild rice lease rentals are excluded. Minnesota Laws of 2012, Chapter 249, Section 3, Subd.5c amended 16A.125 to remove wildfire protection from certifiable costs effective July 1, 2013.

EXECUTIVE SUMMARY

Minnesota Department of Natural Resources (DNR) is responsible for forest resource management on about 2.5 million surface acres of school and university trust lands in Minnesota of which 2.37 million acres are subject to cost certification under Minn. Stat. 16A.125. In fiscal year (FY) 2022, qualifying revenue from DNR managed trust lands totaled \$14.116 million, an increase of \$1.097 million or 8.4 percent compared to FY 2021 (Table 1). FY 2022 qualifying forestry expenditures for DNR managed trust lands totaled \$9.632 million, a decrease of \$0.550 million or 5.4 percent compared to FY 2021. FY 2022 total volume scaled (harvested) from trust lands was 419,939 cord equivalents, an increase of 54,674 cord equivalents or 15 percent year-over-year. In FY 2022, the average value of wood scaled (harvested) was \$27.41 per cord equivalent, a decrease of \$2.43 per cord equivalent or 8.1 percent year-over-year.

Table 1: FY2021-22 School and University Forest Suspense Accounts Forestry Financial Results. (a)

FORESTRY REVENUES	FY2021	FY2022	YoYΔ\$ (b)	YoYΔ% (c)
Timber Sales	\$11,187,294	\$12,203,006	\$1,015,711	9.1%
TS Interest & Penalty	\$3,466	\$15,016	\$11,550	333.2%
Res Mgmt. Access	\$722	\$128	(\$594)	-82.2%
Surface Land Use	\$1,827,554	\$1,897,932	\$70,378	3.9%
Revenues Summary	\$13,019,037	\$14,116,082	\$1,097,045	8.4%
FORESTRY EXPENSES				
Management	\$6,108,754	\$6,344,014	\$235,260	3.9%
Improvement	\$1,872,594	\$1,436,219	(\$436,375)	-23.3%
Forest Roads	\$581,659	\$205,070	(\$376,589)	-64.7%
Administration	\$1,618,917	\$1,646,384	\$27,467	1.7%
Expenses Summary	\$10,181,925	\$9,631,687	(\$550,238)	-5.4%
Forestry Operating Income	\$2,837,112	\$4,484,395	\$1,647,283	58.1%
Forestry Operating Margin	21.8%	31.8%	na	10.0%
TIMBER VOLUMES & PRICES (d)				
Volume Sold (cords)	407,630	452,014	44,384	10.9%
Average Sold Price (per cord)	\$27.18	\$26.98	(\$0.20)	-0.8%
Volume Scaled (cords)	365,265	419,939	54,674	15.0%
Average Scaled Price (per cord)	\$29.84	\$27.41	(\$2.43)	-8.1%

a) Totals may be off due to line item rounding.

b) Year-over-year change in dollar value.

c) Year-over-year change percentage dollar value.

d) Sold and scaled cord equivalents all units of measure.

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Per Minn. Stat. 16A.125, Subd. 5(d), this report documents forestry cost recovery which consists of: (i) the transfer of funds from the State Forest Suspense Account to the Forest Management Investment Account (FMIA) of \$7,985,304 (FY 2021, \$8,592,990) for management, improvement, and road expenditures; and (ii) to the General Fund (GF) of \$1,646,384 (FY 2021 \$1,623,967) for administrative costs. For the combined school and university trust funds, net forestry income was \$4,484,39 (FY 2021, \$2,802,079), a 31.8 percent forestry operating margin (FY 2021, 21.5 percent forestry operating margin).¹

Revenues into the Forest Suspense Account are from either qualifying or non-qualifying sources. Qualifying revenues are dollars generated by the Division of Forestry management activities and are recoverable into the Forest Management Investment Account through the certification process. In order to differentiate between net income from Forestry and net to the trusts, non-qualifying revenues are removed from the certification process and passed directly to the School and University Trusts. Non-qualifying revenues are surface land uses that do not require DNR Forestry direct expenditures. In FY 2022, non-qualifying State Forest Suspense Account revenue was \$338,540 (FY2021, \$774,233), a year-over-year decrease of \$435,693 or 56.3 percent (Table 2).

Table 2: FY2021-22 State Forest Suspense Account Non-Qualifying Revenue. (a)

Fund > Appropriation > Account	FY2021	FY2022	YoYΔ\$ (b)	YoYΔ% (c)
3800 - School Trust Suspense Account				
DNR Parks and Trails				
Forest Campgrounds	\$407,884	\$312,435	(\$95,449)	-23.4%
DNR Lands and Minerals				
Damage Costs	\$267,841	\$11,157	(\$256,684)	-95.8%
Lease - Wild Rice Farming	\$7,006	\$7,006	(\$0)	0.0%
Land Crossing Lic. on DNR Lands	\$91,502	\$7,944	(\$83,558)	-91.3%
Total Non-Qualifying	\$774,233	\$338,540	(\$435,693)	-56.3%

a) Totals may be off due to line item rounding.

b) Year-over-year change in dollar amount.

c) Year-over-year change percentage.

Non-forestry direct appropriations transferred out of the state forest suspense account totaled \$1,018,000. The transfers out were comprised of direct appropriations to the Division of Lands and Minerals for land sales and aggregate permits (\$218,000), the Office of School Trust Lands (OSTL) Trust Director (\$300,000), and the OSTL Boundary Waters Canoe Area Land Exchange-Sales project (\$500,000). GF non-forestry reimbursements to cover operating costs for the OSTL and the Legislative Permanent School Fund Commission (LPSFC) totaled \$183,531. These non-forestry revenues, direct appropriation transfers out and GF reimbursements were

¹ Operating margin (return on sales) is a measure of profitability. It indicates how much of each dollar of revenue is left over after operating and administrative costs are subtracted. The formula for calculating operating margin is: net income from operations divided by gross revenue expressed as a percentage.

removed to determine net to the respective trusts and operating margins. In FY 2022, \$3,621,404 (FY 2021, \$3,128,597) was transferred to the combined school and university trust funds with \$3,129,626 to the Permanent School Fund and \$491,778 to the University Trust.

Gross-Net Trends

FY 2022 qualifying forestry revenue from combined school and university trust lands was \$14.116 million, an 8.4 percent increase year-over-year. Forestry operating income from combined school and university trust lands was \$4.484 million, a 58.1 percent increase year-over-year. FY 2022 qualifying forestry revenue from school trust land (STL) was \$13.521 million, an increase of \$0.667 million or 5.2 percent year-over-year (Figure 1). FY 2022 STL forestry operating income was \$3.993 million, an increase of \$1.277 million or 47 percent compared to FY 2021.

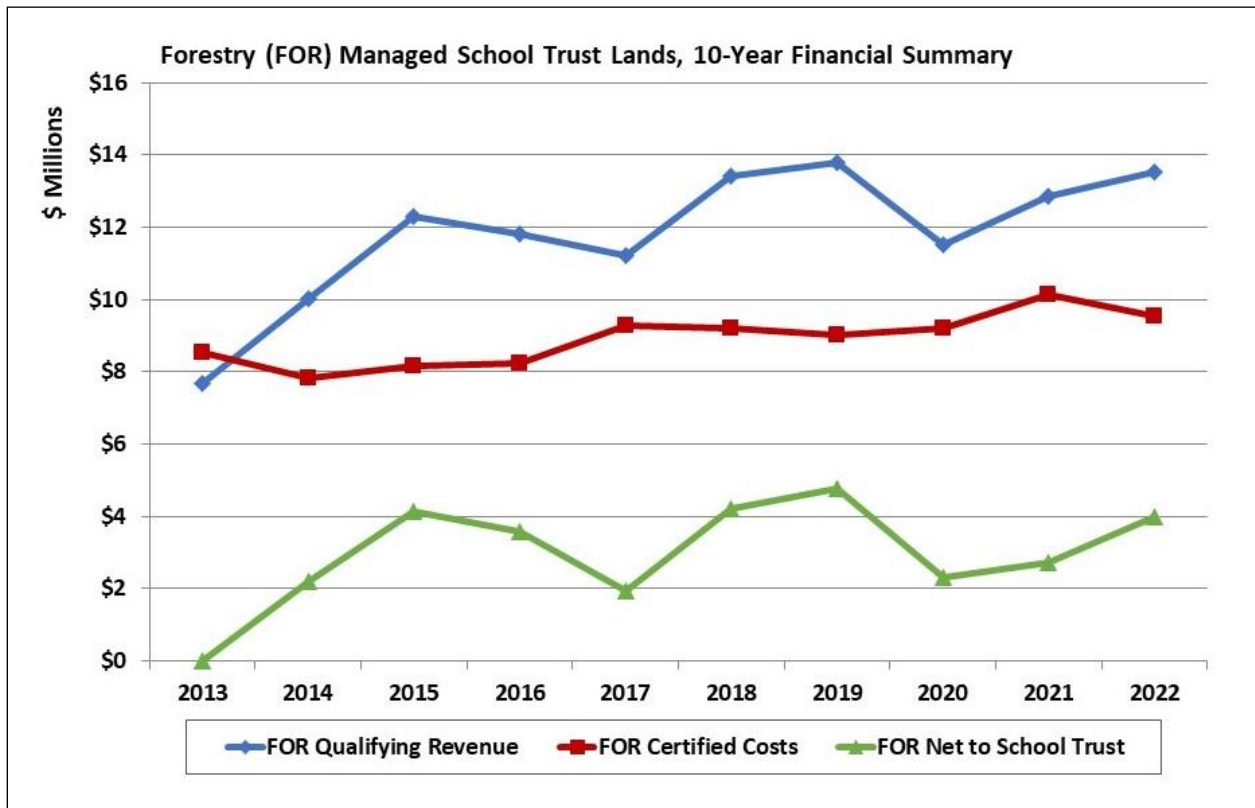


Figure 1: 10-Year Financial Summary for DNR Forestry Managed School Trust Lands.

I. QUALIFYING REVENUES AND EXPENDITURES

This cost certification report provides details on forestry revenue and forest management costs for school and university trust lands in fiscal year FY 2021. Effective July 1, 2013, two key changes were made to Minn. Stat. 16A.125 which specifies the details of cost certification: (i) fire protection was removed from qualifying activities and (ii) language was added requiring “...an analysis that compares costs certified under this section [Subd. 5] with costs incurred on other public and private lands with similar land assets.”

Qualifying Revenues

Qualifying forestry revenues include timber sales and certain surface land use receipts generated from both school and university trust lands that require work funded by the GF and FMIA forest management appropriations. In FY 2022, Minn. Stat. 16A.125 qualifying forestry revenues of \$14.116 million were realized, a year-over-year increase of \$1.097 million or 8.4 percent.

Qualifying Expenditures

Qualifying expenditures are GF and FMIA appropriations for state land forest management (SLFM) activities that are necessary in order to generate revenue. The Division of Forestry budgets, programs and tracks expenditures using a set of unique cost codes applied by fund and appropriation. These cost codes identify qualifying and non-qualifying expenditures by activity (e.g. timber sale preparation and design, timber scaling, forest inventory, and forest roads) that generate the expenditure. Work activities required to generate SLFM revenue qualify for cost certification under Minn. Stat. 16A.125. The qualifying SLFM activities are grouped into four statutory cost categories: management, improvement, roads, and administration.

General operations expenditures (e.g. facilities, information technology, time off, and training) are grouped into a separate shared direct cost category to be prorated across statutory cost categories. First, general operations expenditures are allocated between qualifying and non-qualifying activities. Then, the qualifying portion of general operations is prorated to each statutory cost category based on the percentage of direct qualifying expenditure in each statutory category (management, improvement, roads, and administration). Qualifying expenditures are limited to SLFM activities that generate state forestry revenue and activities required to facilitate state forestry revenue. Work activities such as outreach, private land forest management assistance, urban forestry, and the United States Forest Service Good Neighbor Authority agreements (GNA) are excluded from the cost certification process.

In FY 2022, adjusted GF and FMIA forest management expenditures totaled \$37.019 million. Minn. Stat. 16A.125 net qualifying SLFM expenditures totaled \$23.331 million for all acres’ subject to cost certification. Based on the percentage trust acres to total DNR administered acres, qualifying forestry expenditure for trust lands was \$9.632 million, a year-over-year decrease of \$0.550 million or 5.4 percent.

Management (\$6,344,014)—Expenditures are divided into two sub-categories; timber sales and forest resource management. Timber activities consist of timber sales preparation, permit supervision, scaling, and timber enforcement. Forest management expenditures, the cost of maintaining forests for future revenue, include: management planning, forest inventory, and third party certification. Management costs are prorated based on the percentage of trust acres to total acres' subject to certification. The FY 2022 trusts allocation was 45.321 percent of total \$13,998,022 qualifying SLFM expenditures (Exhibit 1, p15).

Forest Improvement (\$1,436,219)—Activities include site preparation and reforestation, regeneration surveys, and timber stand improvement (TSI) activities that establish and improve forests for future revenue. Improvement costs are prorated based on the percentage of trust acres to total acres' subject to certification. The FY 2022 trust allocation was 45.321 percent of total \$3,169,008 qualifying improvement expenditures (Exhibit 1, p16).

Forest Roads (\$205,070)—State forest roads provide management access to trust lands. The FY 2022 trust allocation was 9.424 percent of the total \$2,176,037 qualifying roads expenditures (Exhibit 1, p16).

Administration (\$1,646,384)—Department administrative services provided to the Division of Forestry and Division of Forestry administrative activities include: leadership services, human resources, accounting, general office & clerical, and other direct and necessary costs related to the support of staff that generates revenue. Administrative costs are prorated based on the ratio of trust land expenditures to net qualifying expenditures for: management, improvement, and roads including general operations allocations. The FY 2022 trust allocation was 41.283 percent of the total \$3,988,090 qualifying administrative expenditures (Exhibit 1, p16).

II. OPERATING RESULTS

DNR state land timber sales comprise about 28 percent of the state's stumpage market. FY 2022 new volume offered in cords and thousand board feet (Mbf) measure was 874,767 cords. Volume sold increased by 9.4 percent to 791,723 cords from 723,475 cords in FY 2021. The new offer sell rate increased by 9.8 percent to 85.9 percent from 76.1 percent in FY 2021. FY 2022 harvest volume all units of measure was 744,893 cords, an increase of 57,666 cords year-over-year. FY 2022 yearend sold-not harvested inventory decreased to 1.691 million cords from FY 2021 yearend of 1.906 million cords, still well above the 2-years supply threshold.

III. DISTRIBUTION OF SCHOOL TRUST REVENUE

Forest products revenues and certain surface land use receipts generated from trust lands are deposited directly in the State Forest Suspense Account within the Permanent School Fund. In FY 2022, \$13,859,626 School Trust revenue was deposited in the State Forest Suspense Account. Non-forestry direct appropriations were transferred out of the Forest Suspense Account to the Office of School Trust Lands (OSTL) (\$800,000, 5.8 percent) and DNR Lands and Minerals Division (\$218,000, 1.6 percent) (Figure 2). Per Minn. Stat. 16A.125, Subd. 5(d), in the order listed, certified forestry costs for management, improvement and roads were transferred to the FMIA (\$7,899,839, 57 percent). Certified forestry administrative costs were transferred to the GF (\$1,628,630, 11.7 percent). Certain operating expenses incurred by the OSTL Director and the LPSFC were reimbursed to the GF from the Forest Suspense Account (\$183,531, 1.3 percent). The net balance of \$3,129,626 (22.6 percent) was transferred to the Permanent School Fund Investment Account.

State Forest Suspense Account School Trust Revenue Distribution						
OSTL Direct Approp.	DNR LAM Direct Approp.	FMIA Forest Mgmt. Cost Certification	GF Forestry Admin Cost Certification	GF OSTL/LPSFC Reimburse	Net to Permanent School Fund	
5.8%	1.6%	57.0%	11.7%	1.3%	22.6%	

Figure 2: State Forest Suspense Account FY 2022 School Trust Revenue Distribution (Minn. Stat. 16A.125 qualifying and non-qualifying).

IV. FORESTRY TRUST COST CERTIFICATION HISTORY

FY 2022 forestry revenue from all state managed acres was \$23.949 million, five year average \$23.230 million. Qualifying combined school and university trusts revenue was \$14.116 million, five-year average \$13.363 million. The sum of forestry trust cost certification transfers was \$9.632 million, five-year average \$9.497 million. Forestry net to the trust funds was \$4.484 million, five-year average \$3.866 million (Table 3a). After accounting for non-qualifying trust revenues, non-forestry direct appropriations, and non-forestry GF reimbursements, net to the trust funds was \$3.621 million, five-year average \$3.520 million. For FY 2022, certified forestry costs were as follows: forest management \$6.344 million, forest improvement, \$1.436 million, forest roads \$0.205 million and administration \$1.646 million (Table 3b). Five-year average

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certified forestry costs were: forest management \$6.189 million, forest improvement, \$1.522 million, forest roads \$0.208 million, and administration \$1.578 million.

Table 3a: Forest Suspense Account History for School and University Trusts. (a)
(amounts in thousands)

Item	FY18	FY19	FY20	FY21	FY22	5-Year Avg.
Total Forestry Revenue (b)	\$23,163	\$25,198	\$21,541	\$22,298	\$23,949	\$23,230
Forestry Trusts Revenue	\$13,531	\$14,408	\$11,739	\$13,019	\$14,116	\$13,363
Cost Transfer to GF	(\$1,555)	(\$1,498)	(\$1,567)	(\$1,624)	(\$1,646)	(\$1,578)
Cost Transfer to FMIA	(\$7,704)	(\$7,601)	(\$7,710)	(\$8,593)	(\$7,985)	(\$7,919)
Sum Cert. Cost Transfers	(\$9,259)	(\$9,099)	(\$9,277)	(\$10,217)	(\$9,632)	(\$9,497)
Forestry Net to Trusts	\$4,272	\$5,309	\$2,462	\$2,802	\$4,484	\$3,866
Non-Forestry Revenues	\$736	\$328	\$303	\$774	\$339	\$496
Non-Forestry Direct Appropriations						
DNR LAM (c)	(\$206)	(\$202)	(\$215)	(\$218)	(\$218)	(\$212)
OSTL (d)	(\$778)	(\$300)	(\$300)	(\$43)	(\$800)	(\$444)
Non-Forestry Reimbursements						
OSTL General Fund	(\$185)	(\$184)	(\$170)	(\$183)	(\$181)	(\$181)
LPSFC General Fund (e)	(\$8)	(\$8)	(\$6)	(\$4)	(\$3)	(\$6)
Net to Trusts	\$3,832	\$4,943	\$2,073	\$3,128	\$3,621	\$3,520

Table 3b: Forestry Certified Costs History for School and University Trusts.
(amounts in thousands)

Forestry Cost Item	FY18	FY19	FY20	FY21	FY22	5-Year Avg.
Protection	\$0	\$0	\$0	\$0	\$0	\$0
Forest Management	\$5,674	\$5,981	\$6,497	\$6,448	\$6,344	\$6,189
Forest Improvement	\$1,906	\$1,351	\$1,045	\$1,869	\$1,436	\$1,522
Forest Roads	\$124	\$269	\$168	\$276	\$205	\$208
Administration	\$1,555	\$1,498	\$1,567	\$1,624	\$1,646	\$1,578
Total	\$9,259	\$9,099	\$9,277	\$10,217	\$9,632	\$9,497

a) Totals may be off due to line item rounding.

b) Timber sales, resource mgmt. access permits, and qualifying surface land use.

c) DNR Lands and Minerals Division.

d) OSTL = Office of School Trust Lands; was Dept. of Administration, Trust Director prior to FY 2020.

e) LPSFC = Legislative Permanent School Fund Commission.

V. DNR FORESTRY TIMBER PROGRAM

In FY 2022, DNR Forestry sold 801,477 cord equivalents and harvested (scaled) 770,081 cord equivalents all species, products, and units of measure excluding GNA agreements (Figure 3). School Trust land (STL) accounted for 448,772 cords sold, 56 percent of total non-GNA volume sold, and 415,104 cords harvested (scaled), 53.9 percent of total non-GNA cords harvested (scaled).

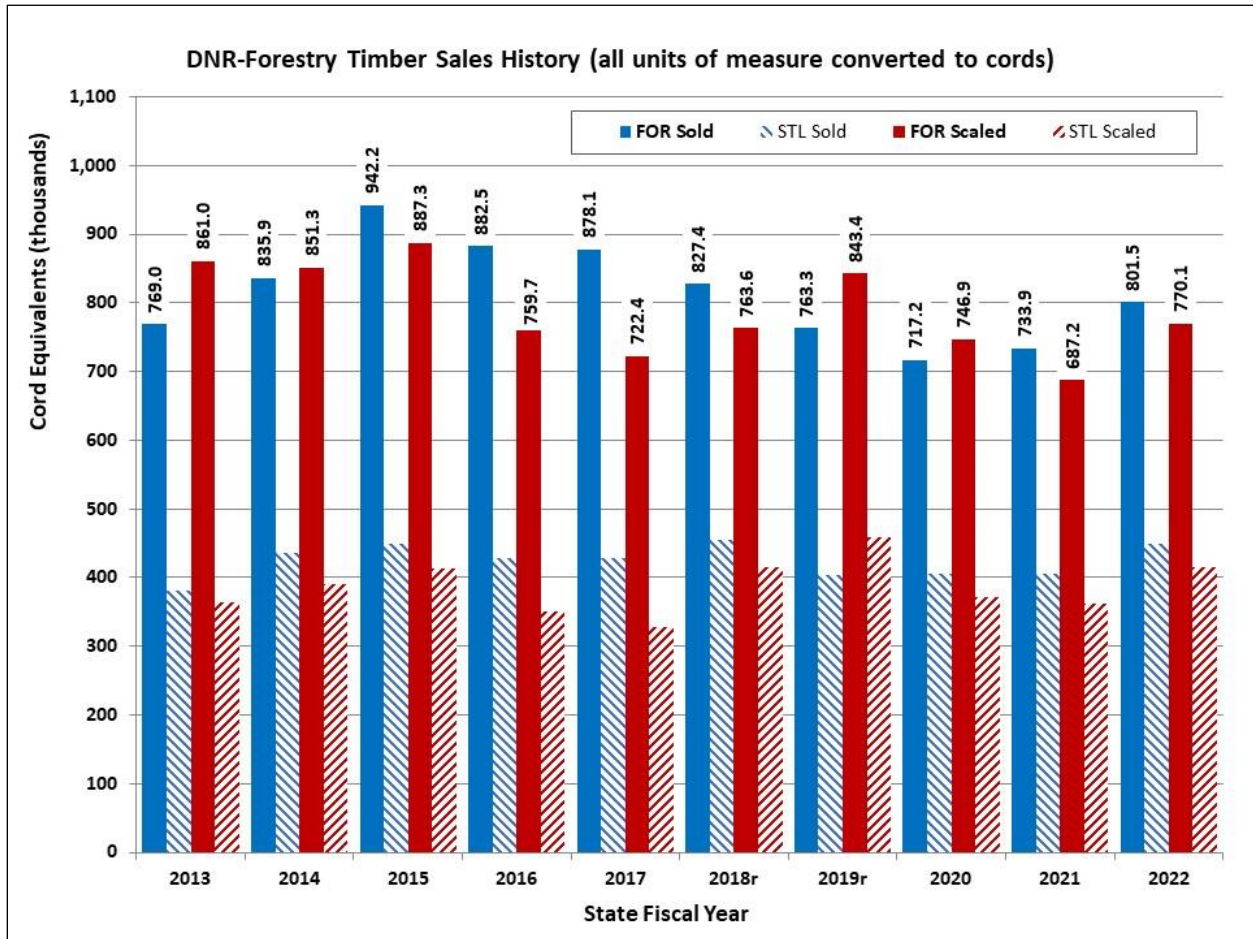


Figure 3: DNR Forestry 10-Year Timber Sales History with School Trust, Volumes Sold and Harvested.

Non-salvage DNR timber permits are valid for three years from the sale date and can be harvested at any point during the 3-year permit period. Hence, average sold and scaled prices are not the same in a given fiscal year. In FY 2022, the average price received for timber sold increased to \$28.33 per cord compared to \$27.33 in FY 2021, an increase of \$1.00 per cord or 3.7 percent year-over-year (Figure 4). In FY 2022, the average price received for timber harvested (scaled) decreased to \$27.25 per cord as compared to \$28.75 in FY 2021, a decrease of \$1.50 per cord or 5.2 percent year-over-year.

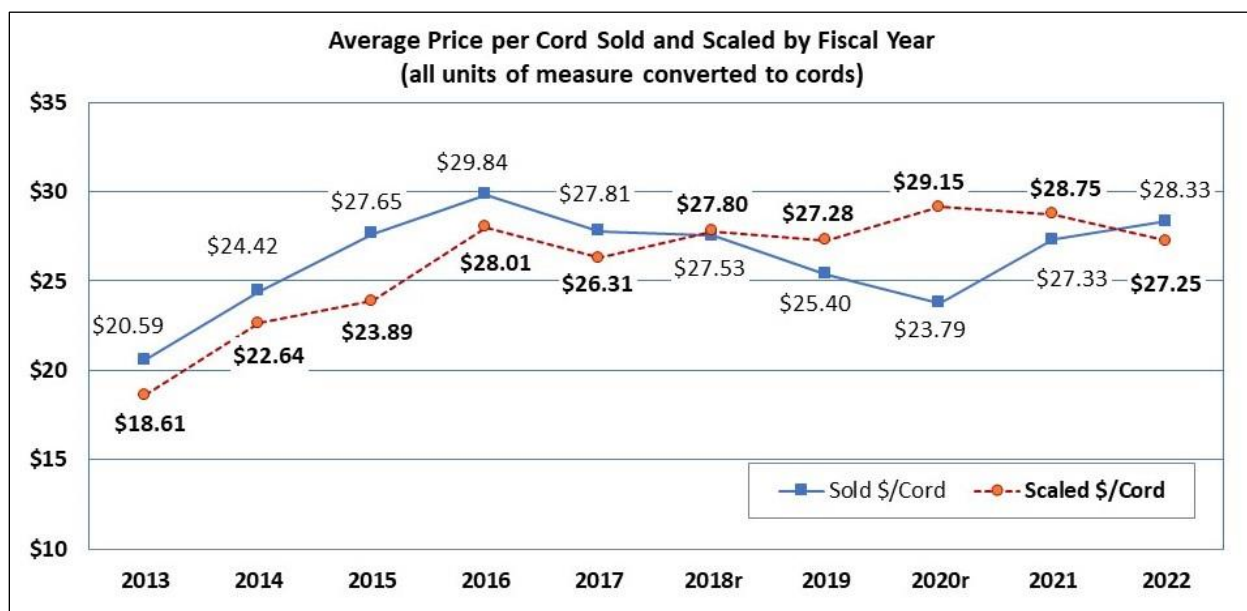


Figure 4: DNR Forestry 10-Year History Average Prices Received for Timber Sold and Scaled.

Due to the sale of about 200,000 cords of wind damaged salvage timber sales in FY 2012 followed by another 100,000 cords in FY 2013, the average price per cord of timber harvested (scaled) decreased to a low of \$18.61 per cord. In FY 2014-16, local market scarcity, driven by tight aspen supply, drove price increases. In FY 2017-18, the increased 900,000-cord timber target in combination with below average harvest volumes added to the growing backlog of sold-not harvested inventory, pulling sell prices down from the FY 2016 peak. In FY 2019-20, virtually all end-product markets declined for various reasons including the COVID-19 pandemic and the Verso Duluth paper mill shut down. Depressed end-product markets combined with continuing high sold-not cut inventory drove further sell price declines. In FY 2021-22, average sales value per cord increased 19.1 percent in response to improving end-product markets.

VI. FINANCIAL PERFORMANCE COMPARISONS

Per Minn. Stat. 16A.125, Subd. 5(c) effective July 1, 2013, “the [cost] certificate shall include an analysis that compares costs certified under this section with costs incurred on other public and private lands with similar land assets.” This topic was addressed in the 2014 Office of the Legislative Auditor (OLA) Evaluation Report on DNR Forest Management.² In this report, OLA concluded “...that differences in forest management goals, policies, and land features prevent meaningful comparisons of profitability between state forest managers and other land managers” (2014 OLA Report, p81). However, the OLA report included an “efficiency” comparison between DNR’s combined Tower, Hibbing, and Cloquet forestry areas with the Saint Louis County (SLC) Land Department. The basis for comparison was new cords offered per full-time equivalent (FTE). OLA found “...the efficiency of the [DNR] Forestry Division’s timber sales activity compared favorably with SLC’s activity” (2014 OLA Report, p87). With that being said, a comparative analysis of financial performance is provided with the following caveats:

1. Profit potential, a function of land productivity, species-product mix, management policy, and geography, is somewhat variable within the Upper Midwest region and relatively low when compared with the Pacific Northwest and Southern United States.
2. Availability of detailed financial reporting in the public domain is extremely limited.
3. Organizational differences in land and resource management entities result in a variety of combinations of land related management activities including: forestry, real estate, minerals, and recreation being combined for operational and accounting purposes. Every attempt is made to adjust external financial reporting to be somewhat DNR comparable.
4. Sources of revenue and other funding are highly variable between organizations.
5. Fiscal years and cost accounting formats are not uniform among land management organizations. Reported accounting numbers require a range of adjustments to be somewhat comparable to DNR.
6. All financials are self reported and unaudited.

The analysis of financial performance includes: profit potential, profitability, management efficiency, and land productivity. Of the land managing entities analyzed, operating margins ranged from -6.8 percent (Chippewa National Forest, CNF) to 61.1 percent (Cass County, CAS) with DNR managed School Trust Land (DNR-STL) reporting an operating margin of 29.5 percent (Table 4). Profit potential (gross timber revenue per cord) ranged from \$27.84 per cord (DNR-STL) to \$42.24 per cord (CNF). In terms of management efficiency, average cost per cord sold ranged from \$14.05 (CAS) to \$57.22 (CNF) with DNR-STL reporting \$21.23 per cord sold. In terms of land productivity, cords sold per managed acre ranged from 0.19 (CNF) to 0.42 (ITSCA) with DNR-STL reporting an average 0.33 cords sold per managed acre.

² Office of the Legislative Auditor, Program Evaluation Division. 2014. Evaluation Report DNR Forest Management. Saint Paul, MN: Office of the Legislative Auditor, State of Minnesota. 107p.

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Table 4: Minn. Stat. 16A.125, Subd. 5(c) Financial Performance Comparisons. (a) (b)
(amounts in thousands except where noted)

Item	MNDNR School Trust FY2022	CAS County CY2021	ITSCA County CY2021	SLC County CY2021	CNF Federal FY2021
REVENUES					
Timber Sales	\$12,026.2	\$2,071.5	\$3,185.7	\$4,062.6	\$3,204.0
Surface Land Use	\$1,494.9	\$124.5	\$299.5	\$876.4	\$1,442.0
Total Qualifying Revenue	\$13,521.1	\$2,196.0	\$3,485.2	\$4,939.1	\$4,646.1
EXPENSES					
Total Forest Mgmt. Expenditure	\$9,528.5	\$853.5	\$1,602.1	\$4,883.5	\$4,964.0
INCOME FROM OPERATIONS					
Profit/(Loss) from Operations	\$3,992.6	\$1,342.6	\$1,883.1	\$55.6	(\$318.0)
PROFIT POTENTIAL					
Gross Timber Revenue per Cord (c)	\$27.84	\$34.95	\$31.03	\$28.48	\$42.24
Gross Revenue per Mgmt. Acre	\$9.98	\$12.19	\$15.49	\$8.41	\$10.12
PROFITABILITY					
Operating Margin	29.5%	61.1%	54.0%	1.1%	-6.8%
Operating P/(L) per Cord Harvested	\$9.62	\$23.23	\$17.10	\$0.38	(\$4.89)
MANAGEMENT EFFICIENCY					
Avg. Cost per Cord Sold	\$21.23	\$14.05	\$16.83	\$34.91	\$57.22
Avg. Cost per Mgmt. Acre	\$7.03	\$4.74	\$7.12	\$8.32	\$10.81
LAND PRODUCTIVITY					
Cords Sold per Mgmt. Acre	0.33	0.34	0.42	0.24	0.19
STATISTICAL DATA					
Fiscal Yearend	June 30	Dec 31	Dec 31	Dec 31	Sept 30
Cords Sold	448.8	60.7	95.2	139.9	86.8
Cords Harvested	415.1	57.8	110.1	145.4	65.0
Average of Cords Sold & Harvested	431.9	59.3	102.7	142.7	75.9
Timber Mgmt. Acres (d)	1,355.1	180.1	225.0	587.0	459.3
Total Admin Acres	2,520.3	257.7	300.0	902.1	666.5

Notes for financial performance comparisons:

a) Totals may be off due to line item rounding.

b) Comparisons: Cass County, Minn. (CAS), data source = CAS Land Dept. Annual Report and direct contact; Saint Louis County, Minn. (SLC), data source = direct contact financial data request; Chippewa National Forest, Minn. (CNF), data source = direct contact multiple financial data requests; and Itasca County, Minn. (ITSCA), data source = ITSCA County Land Dept. Annual Report and direct contact.

c) Timber sales revenue divided by average of cords sold and harvested.

d) School Trust timber mgmt. acres from Sustainable Timber Harvest (STH) planning project, 2017.

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Historical comparisons of operating margins are provided with the same caveats as the annual comprehensive financial comparisons. Over the past five years, DNR managed STL operating margins ranged from a low 20 percent in FY 2020 to a high 34.5 percent in FY 2019 (Figure 5). CNF forestry is primarily focused on maintaining and enhancing wildlife habitat, generating a wide range of profit/(loss) margins over the past nine years. For 2022, PotlatchDeltic (PCH) was dropped from the operating margin comparisons due to the sale all timberland in Minnesota. Itasca (ITSCA) County was added this year to replace PCH. With relatively small managed timber acreage (180,097 acres) and limited forestry staff, CAS forestry consistently generates the highest profit margins of the group.

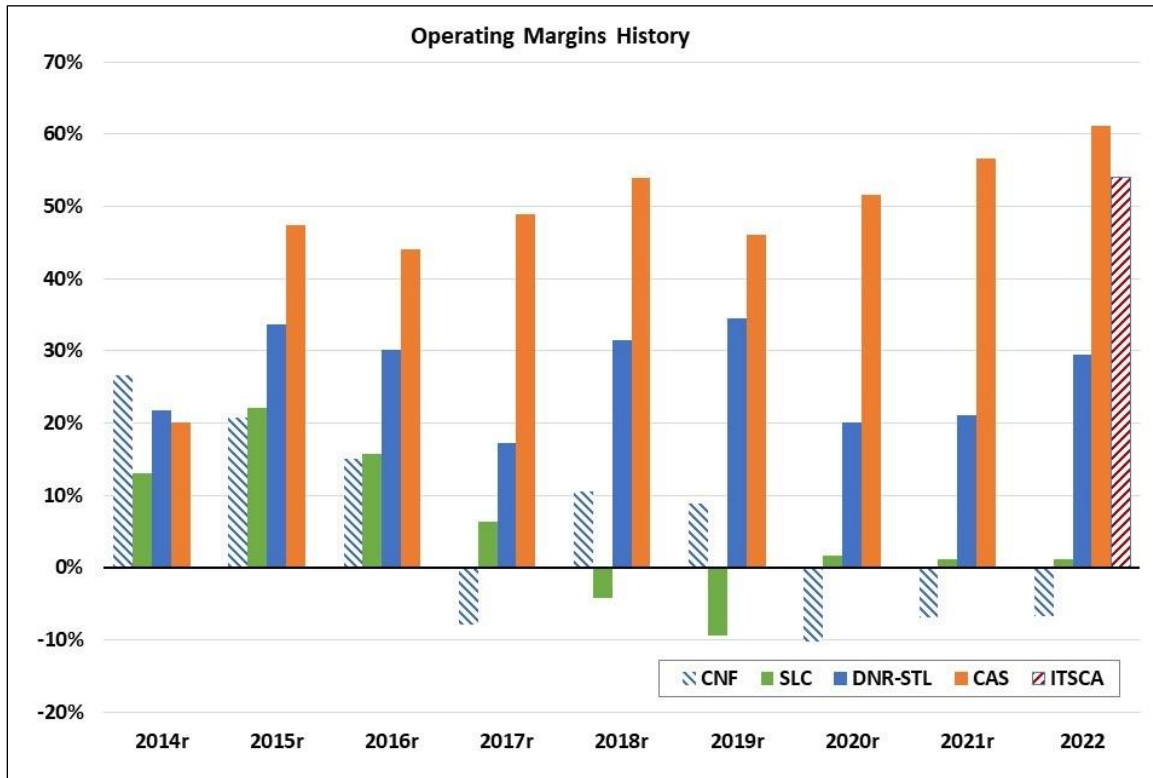


Figure 5: Minn. Stat. 16A.125 Subd. 5(c), Comparison of Operating Margins.

Exhibit 1: FY 2020 Minn. Statute 16A.125 Cost Allocation

Part A. Base Data from Division of Lands and Minerals, Division of Forestry and MN.IT.

Data Item	Value
Acres of Permanent School Fund Forestland Subject to Cost Certification	2,370,418
Acres of University Trust Fund Forestland Subject to Cost Certification	25,840
Sum Acres of Trust Fund Forestland Subject to Cost Certification	2,396,258
Total Adjusted MNDNR Admin Acres	5,287,326
Total Trust Acres Percent of Adjusted MNDNR Admin Acres	45.321%
Permanent School Fund Acres Percent of Total Adjusted MNDNR Admin Acres	44.832%
University Trust Percent of Total Adjusted Admin Acres	0.489%
School Trust Billable Percent Qualifying Forestry Roads Expenditures	9.352%
University Trust Billable Percent Qualifying Forestry Roads Expenditures	0.072%
Net Allowable Forestry Expenditures Paid From the General Fund and FMIA	\$23,331,157.55
Sum of Allowable Forestry General Operations (Shared Direct Costs)	\$6,708,814.88

Part B. Forest Management Costs for Trust Lands.

B.1. Management Cost Item	Value
Net Qualifying Forestry General Fund/FMIA Direct Costs for Management	\$2,346,022.46
Management Portion of Forestry General Operating GF/FMIA Costs	\$1,030,340.81
Total Management Costs to be Allocated	\$3,376,363.27
School Trust Management Cost Allocation at 44.832%	\$1,513,693.74
University Trust Management Cost at 0.489%	\$16,500.82

B.2. Timber Sales Cost Item	Value
Net Qualifying Forestry General Fund/FMIA Direct Costs for Timber Sales	\$7,380,322.67
Timber Sales Portion of Forestry General Operating GF/FMIA Costs	\$3,241,336.26
Total Timber Sales Costs	\$10,621,658.92
School Trust Timber Sales Cost Allocation at 44.832%	\$4,761,910.18
University Trust Timber Sales Cost Allocation at 0.489%	\$51,909.73

B.3. Total General Fund/FMIA Management Costs for Trust Lands	Value
Sum of Mgmt. Costs for School Trust Lands	\$6,275,603.92
Sum of Mgmt. Costs for University Trust Lands	\$68,410.55

M.S. 16A.125 Transfer Certification Report

Part C. Forest Improvement Costs for Trust Lands.

Improvement Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA Forest Improvement Costs	\$2,201,944.07
Forest Improvement Portion of Forestry General Operating GF/FMIA Costs	\$967,063.57
Total Forest Improvement Costs	\$3,169,007.64
School Trust Forest Improvement Cost Allocation at 44.832%	\$1,420,731.91
University Trust Forest Improvement Cost at 0.489%	\$15,487.44

Part D. Forest Roads Costs for Trust Lands.

Roads Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA State Forest Road Costs	\$1,511,991.58
State Forest Roads Portion of Forestry General Operating GF/FMIA Costs	\$664,045.91
Sum Qualifying State Forest Road Costs	\$2,176,037.49
School Trust State Forest Roads Cost Allocation at 9.352%	\$203,503.03
University Trust State Forest Roads Cost Allocation at 0.072%	\$1,566.75

Part E. Administrative Costs for Trust Lands.

Administrative Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA Administrative Costs	\$3,182,061.89
Administrative Portion of Forestry General Operating GF/FMIA Costs	\$806,028.34
Total Net Admin Costs	\$3,988,090.23
Total Direct Trust Land Costs (includes General Ops allocations)	\$7,985,303.59
Total Qualifying General Fund/FMIA Costs Less Admin	\$19,343,067.32
Trust Direct Costs as a Percent of Total Qualifying GF/FMIA Direct Costs	41.283%
Trust Portion of Administrative Costs	\$1,646,383.72
School Trust Administrative Cost Allocation	\$1,628,629.98
University Trust Administrative Cost Allocation	\$17,753.75

Minnesota Department of Natural Resources, Division of Forestry M.S. 16A.125, Subd 5.
Cost Certificate, State Forest Suspense Account Fiscal Year 2022

REVENUES	School Susp. Fund: 3800	Univ. Susp. Fund: 2000	School+Univ Susp. Total
[A] Total Revenues Qualifying	13,521,086	594,996	14,116,082
[B] Revenues Non-Qualifying	338,540	0	338,540
[C] Total Revenues	13,859,626	594,996	14,454,622

DIRECT APPROPRIATIONS, EXPENDITURES, AND REIMBURSEMENTS

Non-Forestry Direct Appropriations Transferred Out of Forest Suspense Account

DNR LAM St For Susp. Land Sales & Aggregate			
Legal Citation: 211 006 01 003 02C	(218,000)	0	(218,000)
OSTL Base Perm School			
Legal Citation: 211 006 01 003 09D	(300,000)	0	(300,000)
OSTL BWCA Land Exchange & Sales			
Legal Citation: 211 006 01 003 09C	(500,000)	0	(500,000)
[D] Total Non-Forestry Direct Appropriations	(1,018,000)	0	(1,018,000)

Total Revenues Minus Direct Appropriations	12,841,626	594,996	13,436,622
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Expenditures - Forestry Qualifying

[E] Management	(6,275,604)	(68,411)	(6,344,014)
[F] Improvement	(1,420,732)	(15,487)	(1,436,219)
[G] Forest Roads	(203,503)	(1,567)	(205,070)
[H] Administration	(1,628,630)	(17,754)	(1,646,384)
[J] Forestry Certified Costs	(9,528,469)	(103,218)	(9,631,687)

Non-Forestry Reimbursements to General Fund

DNR OSTL Base General Fund			
Legal Citations: 211 006 01 003 09B and Minn. Stats. 22, Ch. 16A.125, Subd. 5(d)(2)	(180,854)	0	(180,854)
Legislative Permanent School Fund Commission (LPSFC)			
Legal Citations: 211 012 01 002 04 and Minn. Stats. 22, Ch. 16A.125, Subd. 5(d)(2)	(2,677)	0	(2,677)
[K] Total Non-Forestry Reimbursements	(183,531)	0	(183,531)

NET INCOME

[L] Forestry Net to Trust Funds ⁽¹⁾	3,992,617	491,778	4,484,395
[M] Net to Permanent Trust Funds ⁽²⁾	3,129,626	491,778	3,621,404

Transfers to Other Funds Per M.S. 16A.125, Subd. 5(d)	School Susp. Fund: 3800	Univ. Susp. Fund: 2000	School+Univ. Susp. Total
Transfer to the Forest Management Investment Account			
M.S. 16A.125, Subd. 5(d)(1) Transfer ⁽³⁾	(7,899,839)	(85,465)	(7,985,304)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(2) Transfer ⁽⁴⁾	(183,531)	0	(183,531)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(3) Transfer ⁽⁵⁾	(1,628,630)	(17,754)	(1,646,384)
Total M.S. 16A.125 Transfers to Other Funds	(9,712,000)	(103,218)	(9,815,218)

Table Notes

- ⁽¹⁾ Forestry qualifying revenues [line A] minus forestry certified costs [line J]
⁽²⁾ M.S. 16A.125, Subd. 5(d)(4) Transfers to the Permanent Trust Funds
⁽³⁾ Sum of certified forest management [line E], improvement [line F], and forest roads [line G] costs.
⁽⁴⁾ Sum of Dept. of Admin, Trust Director and LPSFC cost reimbursements as shown on line K.
⁽⁵⁾ Forestry qualifying administration costs as shown on line H.
Totals may not add due to line item rounding to the nearest dollar.

Submitted By:

Patty Thielen

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Thielen
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Patty Thielen
Director
DNR Division of Forestry

Date:

Reviewed By:

Mary Robison

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Robison
Date: 2023.06.07 08:49:34
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Mary Robison
Chief Financial Officer
DNR Office of Mgmt. and Budget
Services

Date:

Certified By:

Sean
Fahnhorst

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Sean Fahnhorst
Exec. Budget Officer
Minn. Mgmt. and Budget

Date: