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Minnesota's School Trust Lands

Biannual Report



Permanent School Fund Advisory Committee
MNDNR - Biannual Report
June 2009



DNR – School Trust Lands Biannual Report

Pursuant to Minnesota Statutes, Section 84.027, Subd. 18, the commissioner of natural resources is required to biannually report to the Permanent School Fund Advisory Committee (PSFAC) on the management of the school trust lands.¹ The following is a summary of the recent DNR management activities regarding the school trust lands.

Land Sales

In **FY09**, the sale of trust land generated a total of **\$86,565**. At the Fall 2008 sale, 21 parcels were offered and 4 parcels totaling 84.5 acres were sold, contributing \$75,565. At the Spring 2009 sale, 7 parcels were offered and 1 parcel of 35.3 acres was sold, contributing \$11,000.

Mineral Revenues

In **FY08**, gross revenue generated from minerals activities on school trust lands was **\$20.97 million**. The largest contributor was \$20,729,068 from iron ore/taconite rents and royalties (and interest). Other contributing categories were non-ferrous metallic minerals leases (\$178,421), stockpiling/surface leases (\$30,049), peat leases (\$1,020), and M-leases (leases for stockpiled, low-grade iron materials; \$31,528). Twenty percent of the revenue from iron ore/taconite and nonferrous metallic minerals rent and royalties (\$4,154,194) went to the minerals management account and the remainder of the minerals revenue (\$16,818,081) went to the school trust fund. Also, \$2,385,261 was transferred from the minerals management account back to the school trust fund in FY08.

In **FY09**, as of June 15, 2009, gross revenue generated from minerals activities on school trust lands has been **\$16.70 million**. The largest contributor has been \$16,019,427 from iron ore/taconite rents and royalties. Other contributing categories have been non-ferrous metallic minerals leases (\$249,892), stockpiling/surface leases (\$10,530), peat leases (\$77,699), and M-leases (leases for stockpiled, low-grade iron materials; \$339,651). Twenty percent of the revenue from iron ore/taconite and nonferrous metallic minerals

¹ Minnesota Statutes § 84.027, Subd. 18. **Permanent school fund authority; reporting.**

The commissioner of natural resources has the authority and responsibility for the administration of school trust lands under sections 92.121 and 127A.31. The commissioner shall biannually report to the Permanent School Fund Advisory Committee and the legislature on the management of the school trust lands that shows how the commissioner has and will continue to achieve the following goals:

- (1) manage the school trust lands efficiently;
- (2) reduce the management expenditures of school trust lands and maximize the revenues deposited in the permanent school trust fund;
- (3) manage the sale, exchange, and commercial leasing of school trust lands to maximize the revenues deposited in the permanent school trust fund and retain the value from the long-term appreciation of the school trust lands; and
- (4) manage the school trust lands to maximize the long-term economic return for the permanent school trust fund while maintaining sound natural resource conservation and management principles.

rent and royalties (\$3,254,807) has gone to the minerals management account and the remainder of the minerals revenue (\$13,447,110) has gone the school trust fund. (At the end of FY09, the amount in the minerals management account exceeding \$3 million will be returned to the school and university trust funds in proportion to the amount that each paid in to the account. A portion of the twenty percent that goes into the minerals management account will be transferred back to the school trust fund.)

The taconite industry has been greatly affected by the worldwide economic downturn. A dramatic decrease in steel production and iron ore consumption has caused a significant drop in the royalty projections for **FY10**.

Revenues from Timber Sale, Campground Fees, and Surface Contracts

Timber sales.

In **FY09**, as of May 29, 2009, timber sales receipts have totaled about **\$9.06 million**, with timber sale interest bringing in \$47,678. All of this revenue was deposited into the Forestry Suspense Account, for certification at the end of the year.

Campground fees.

In **FY09**, as of May 29, 2009, campground fees from school trust lands have totaled **\$116,591**. All of this revenue was deposited into the Forestry Suspense Account, for certification at the end of the year.

Surface contracts.

In **FY09**, as of May 29, 2009, a gross total of about **\$948,017** has been collected on active surface contracts that included some portion of trust land. All of this revenue was deposited into the Forestry Suspense Account, for certification at the end of the year.

The surface contracts include:

Leases: Aggregates; agriculture; hunting cabins; miscellaneous (commercial, government and private)

Permits: Resource Management Access (RMA), Grant-In-Aid (GIA)

Easements: Permanent and temporary easements (primarily road) on trust fund land

Licenses: Water crossings and land crossings by utilities

Wind Leasing

The DNR is in the process of negotiating its first wind lease near Biwabik, on school trust land. Laws of Minnesota 2009, Chapter 176, Article 3, Section 12, requires the DNR to enter into a state land lease with Mountain Iron Economic Development Authority for installation of up to four wind turbines and access roads by August 30, 2009.

Minnesota Statutes 92.502 gives the commissioner of natural resources the right to enter into a 30 year lease for wind energy projects. The DNR has received a few inquiries regarding leasing state land for wind generation and is in the process of drafting a form

lease to be used when leasing state lands for wind generation. Also, the DNR has been working on guidelines to be used when determining which state lands are appropriate for wind generation.

Exchanges

In accordance with Minnesota Statutes 92.121, the DNR is working on exchanging non-revenue generating school trust lands for revenue generating state lands. The DNR has identified old growth lands, water access sites, Wildlife Management Areas(WMA), and Scientific and Natural Areas(SNA) on school trust lands, which are at least partially non-revenue generating.

Approximately 20,000 acres of school trust lands have been identified as having old growth forest on them. An exchange of approximately 1,000 acres of trust land containing old growth and approximately 1,500 acres of non-trust lands have been identified for exchange. Appraisals for these parcels should be completed by June 30, 2009. The exchange process has also begun for WMA lands. Approximately 280 acres of trust land have been identified and 280 acres of non-trust have been identified for exchange. The appraisals on these lands should also be completed by June 30, 2009. With regard to water access sites, the DNR is identifying revenue generating state lands for exchange, and hopes to exchange some of these sites within the near future.

Legislative Report

Some legislation related to the school trust lands was passed during the 2009 Legislative Session. Minnesota Statutes, Section 92.45 withdraws most state lands that border water from sale. Notwithstanding Minnesota Statutes, Section 92.45, Laws of Minnesota 2009, Chapter 176, Article 4, Sections 5, 15, 21, 22, and 28, allow the commissioner of natural resources to sell five riparian school trust land parcels.

Under Minnesota Statutes 2008, Section 94.342, if state land with riparian frontage was exchanged with other land, the riparian frontage of the state acquired land was required to have riparian frontage on the same or other public waters in the same general vicinity affording at least equal opportunity for access to the waters and other riparian use by the public. Laws of Minnesota 2009, Chapter 37, Article 1, Section 32, amends Minnesota Statutes 2008, Section 94.342, Subd. 3, to remove this requirement as to land exchanges only involving land administered by the DNR where the land remains in state ownership. So now when DNR controlled and administered state owned lands (including school trust lands) are exchanged for other DNR controlled and administered state owned lands, the exchange parcels will no longer need to have similar riparian frontage. This will allow for exchanges to be more efficiently accomplished, but does not change other requirements for land exchange, including the requirement that lands be at least equal in value.

Minnesota Statutes 2008, Section 84.415, pertains to the granting of utility crossing licenses across DNR administered lands and waters. Laws of Minnesota 2009, Chapter

37, Article 1, Section 12, amends Minnesota Statutes 2008, Section 84.415, to require that money received from licenses and permits for the use of the beds of navigable waters, issued under Section 84.415, be credited to the permanent school fund. Before this amendment, the money received for the use of the beds of navigable waters was credited to the Forestry Suspense Account.

Laws of Minnesota 2009, Chapter 176, Article 3, Section 13, requires the commissioner of natural resources to grant easements across state land administered by the commissioner to private landowners on Bass Bay on the north shore of Lake Vermilion to access Mud Creek Road (County Highway 408). This easement will cross school trust lands. A landowner granted an easement under this section shall grant a reciprocal easement to the state. The state will also be compensated in cash for the easement.

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Report preparation costs

The report cost about \$675 to prepare. Funds that the legislature appropriated for the school trust fund revenue enhancement program were used to prepare this report.