



Methods for Financing Land Management

Methods for Funding Land Management in Minnesota

I. Background

About 5.6 million acres, or 11 percent of the land in Minnesota, is owned by the state and managed by the Department of Natural Resources (DNR).¹ The majority of this land is “natural resource land,” which includes state parks and trails, water access sites, forests, fish and wildlife habitat areas, among other uses.²

In addition to state owned land, the state holds more than 587,487 acres in conservation easements.³ A conservation easement is a voluntary legal agreement between a landowner and the state or a conservation non-profit organization. As part of this agreement, the landowner agrees to forego some development of the property, so that it can be kept for conservation purposes. In the case of conservation easements, the state of Minnesota does not own the land. However, the state does make an up-front cost as part of the agreement and assumes some on-going land management responsibilities and costs. Easement management responsibilities lie primarily with the DNR and the Board of Water and Soil Resources (BWSR).

Policymakers have raised concerns that the state’s current management funding may be insufficient to meet existing land management needs. The legislature consequently required the DNR to conduct a ten-year budget analysis, comparing the amount of funding necessary to effectively manage state land holdings with current funding availability. DNR’s final budget analysis in fulfillment of this requirement was released to the legislature on December 30th, 2010. Through their analysis, DNR found an \$18.9 million per year budget gap given current land holdings for the five types of land examined in the report, plus a \$6 million per year budget gap for parks and trails land management needs. This total land management budget gap of \$24.9 million per year grows if land acquisition continues at current rates, or at the rates included in DNR’s long-term plans.⁴ BWSR has conducted their own land management budget analysis, for their easement holdings. Please contact BWSR directly for a copy of their report.

Laws of Minnesota 2010, Chapter 361, Section 10 states that “the commissioner of management and budget, in consultation with the commissioner of natural resources and the board of water and soil resources, shall prepare recommendations to the legislature on methods to accomplish the reasonable management, care, restoration, and protection of land acquired in fee title or easement.” In fulfillment of this requirement, the purpose of this report is to review available funding and possible funding methods to support the management of state-owned land and easements.

II. Funding Sources

DNR’s land management report identified a variety of funding sources currently used for land management, including the general fund, game and fish fund, the environment and natural resources fund, the natural resources fund, Reinvest in Minnesota (RIM) funding, federal funds, the Minnesota resources fund, legacy funds, special

¹ Office of the Legislative Auditor (OLA), Program Evaluation Division, *Natural Resource Land Evaluation Report* (March 2010) p.5

² *ibid*

³ DNR holds about 355,993 acres worth of conservation easements, and BWSR holds more than 231,494 acres. Department of Natural Resources (DNR), *LCCMR Status Report Attachment* (December, 2010) Attachment F5; and Board of Water and Soil Resources (BWSR), *RIM Reserve Long-Term Land Management Analysis* (January, 2011) p. 1.

⁴ Department of Natural Resources (DNR), *Long Range Budget Analysis of Land Management Needs* (December, 2010) p. 7. and Budget Analysis Addendum, p. 8. According to DNR staff, very little DNR owned or managed land falls outside of the analysis in the report and the parks and trails land analysis included in the addendum. The analysis takes into account all DNR managed lands, including state owned land and easements over which DNR has management authority. DNR analysis does not include easements over which the agency does not have management authority. According to DNR staff, all parks and trails land was categorized as parks and trails, and was not double counted as part of another category. For example scientific and natural area (SNA) land that fell within a state park would be considered parks and trails land, and not an SNA.

revenue funds, and gifts to DNR. All of the sources listed in DNR’s report are logical sources of funding for land management, except for state general obligation bond funds. According to State Bond Council interpretation of requires in the Minnesota State Constitution, bond funds can only be used to fund capital related projects, such as land or building acquisition.⁵ They cannot be used to support ongoing land management activities.

The DNR currently uses the following sources of funding to cover land management costs. The state can draw from these sources of funding to support land management activities, within the legal parameters guiding the uses of each fund:

Fund	Sources of Revenue	Allowable Expenditure
General Fund	The General Fund is the state government's main operating fund. State taxes are the main revenue source for this fund. The four biggest tax categories are: income tax, sales tax, corporate tax, and statewide property tax.	The general fund can be used for land management activities, as they fall within the broad spectrum of state priorities.
Game and Fish Fund	Receipts come from hunting and fishing licenses; stamps and permits; wildlife surcharges; license application and issuing fees; timber sales on wildlife conservation lands; and interest earnings. Also included receipts from the federal sport fish and wildlife restoration programs. Revenue from in-lieu-of-sales tax on lottery tickets is deposited into the Enhancement Heritage Account within the Game and Fish Fund.	<p>Portions of the Game and Fish Fund can be used to pay for land management activities, depending on the nature of those activities.</p> <p>Expenditures from the Game and Fish Operations account are to manage, monitor and protect fish and wildlife resources; enforce game and fish laws; provide access to lakes, rivers and streams; and deliver administrative support across programs.</p> <p>Authorized expenditures from the Game and Fish dedicated accounts are for programs and purposes directly related to how revenues are generated. For example, funds in the Trout and Salmon Management account are spent on species research, habitat improvement and trout and salmon stocking. Expenditures from the Heritage Enhancement Account are to improve, enhance or protect fish and wildlife resources. These dedicated accounts can be used for land management activities that are consistent with their specific purposes and parameters.</p>
Natural Resources Fund	Made up of twenty accounts, including: <ul style="list-style-type: none"> ▪ Recreational Vehicles Accounts (watercraft, 	Accounts within the natural resource fund can be used for land management activities, as long as those activities are consistent with the designated purposes of the accounts. For example, the AVT

⁵ Memorandum from the State Bond Council, March 15th, 1990. Available on-line at: <http://www.mmb.state.mn.us/doc/bonds/opinions/opinions-cap-exp.pdf>. This memo interprets the Minnesota State Constitution, Article XI, Section 5, which states that general obligation state bond funds can be used “to acquire and to better public lands and buildings and other public improvements of a capital nature, and to provide money to be appropriated or loaned to any agency or political subdivision of the state for such purposes.”

	<p>snowmobiles, all-terrain vehicles, off-highway motorcycles, and off-road vehicles)</p> <ul style="list-style-type: none"> ▪ Land Acquisition ▪ Non-game Wildlife ▪ Lottery in-lieu-of-sales tax supported accounts (State Parks and Trails, Metro Regional Parks, Local Trail Grants, and Zoo Grants) ▪ State Parks Account ▪ Off-Road Vehicle Damage ▪ State Land and Water Conservation (LAWCON) ▪ Cross Country Ski ▪ Forestry Management Investment ▪ Natural Resources Dedicated ▪ Minerals Management ▪ Invasive Species ▪ Mining Administration 	<p>fund can be used for the management and upkeep of AVT trails on state lands.</p> <p>The tax receipts from the sale of lottery tickets are used, in part, on state parks and trails, and can be used for land management on those lands.</p>
Environment and Natural Resources	<p>Lottery proceeds have been used to build up the principal in the Environmental Trust Fund. The Minnesota Constitution provides up to 5.5% of the market value of the trust fund for environmental projects "for the public purpose of protection, conservation, preservation, and enhancement of the statewide air, water, land, fish, wildlife, and other natural resources."</p>	<p>Environment and Natural Resources Trust fund dollars are appropriated annually. Agencies, such as the DNR, make proposals to the Legislative and Citizen Committee for Minnesota Resources (LCCMR) and the LCCMR subsequently makes appropriation recommendations to the legislature. These funds can be appropriated for a variety of land management purposes, as its governing language in the Minnesota Constitution is very broad.</p>
Outdoor Heritage Fund	<p>This fund receives 33 percent the 3/8 of 1 percent sales tax that was constitutionally designated through the 2008 Legacy Amendment. The fund can be used to "protect, enhance, and restore" natural habitat.</p>	<p>The projects funded from the Outdoor Heritage fund come from recommendations made by the Lessard-Sams Outdoor Heritage Council and approved by the legislature on an annual basis. This fund can be used for land management activities that would constitute the protection, enhancement, or restoration of state owned or managed lands.</p>
Parks and Trails Fund	<p>This fund receives 33 percent the 3/8 of 1 percent sales tax that was constitutionally designated through the 2008 Legacy Amendment. The fund is designated to support state and local parks and trails.</p>	<p>This fund can be used to support the management of state parks and trails land. DNR's analysis that found a \$6 million annual budget gap for the management of state parks and trails considered the current use of parks and trails fund money for management activities.</p>

Reinvest in Minnesota (RIM)	The RIM money comes from two major sources: Gifts to DNR and revenue from natural resources license plate sales. Some license plate revenue is used as matching dollars, to match the value of gifts of land that the DNR periodically receives.	RIM funds not designated for other purposes are available to support the DNR's needs and priorities, and can support their land management activities.
Federal Funds	Federal receipts can be the result of research and special project agreements, grants for boat and water safety, trail development, fire prevention and protection, preservation, protection of Lake Superior coastal resources, and expense reimbursements following a FEMA-declared natural disaster.	Authorized expenditure of federal funds is for purposes that are authorized in federal and state law, and through federal grant agreement. Some funds could possibly be used for land management activities.
MN Resources Fund	A fund generated by gas tax revenue, designated for use in the environment and natural resources area. This fund is now largely closed out: only about \$130 thousand remain in the fund	DNR currently has the legal authority to spend the remainder of the MN Resources Fund on trails related projects. DNR can therefore spend these funds on trails related land management activities, as consistent with their on-going appropriations.
Misc. Special Revenue	Receipts are generated from sources that include iron ore rents and royalties; timber sales on state-owned land; fees for firefighting; sales of nursery seedlings; cooperative agreements; merchandise and consumables sold in state parks; food, lodging and souvenirs at the Douglas Lodge complex in Itasca State Park; and private restricted donations.	Authorized spending from the Special Revenue accounts is for purposes directly related to how revenues are generated. For example, the DNR is planning to spend the amounts from the Douglas Lodge account for operations at the Douglas Lodge complex at Itasca State Park, and they intend to use the receipts from nursery seedlings sales to continue operating the forest nursery. Special Revenue Funds can therefore be used for land management activities as those activities are consistent with the revenue stream.
Gifts (to DNR)	Gift funds come from private gifts to the DNR.	Gifts designated by the donor for a specific purpose must be used for that purpose. Gifts without a specific designation can be used to support the priorities of the agency, and can be used to support land management activities.

III. Funding Methods

Option 1: Appropriations

a. Direct Appropriations

The first funding method to accomplish the reasonable management, care, restoration, and protection of state owned land or easement is direct appropriations. Under this option, the state would appropriate funding for land management from a variety of available sources via the regular biennial budget process. It is likely that amounts appropriated would be based on some type of DNR certification of the amount of land management need.

The main benefit of direct appropriations is they allow the state to consider land management needs among the range of other state needs and priorities, and to assign funding accordingly. The appropriations, funding levels, and sources can subsequently be changed between biennium, as the state's priorities and finances evolve. The legislature and the governor can also use direct appropriations to set priorities within the broad range of land management needs and activities. For example, they can determine which types of land have the most urgent management needs, and appropriate funds to be used on those lands.

In addition to setting priorities, direct appropriations allow the legislature and the governor to control the connection between the sources and uses of funds. Direct appropriations can be made from a variety of funding sources, for the designated purposes of those funds. For example, game and fish funds could be appropriated specially for the management of lands that are publicly available for hunting.

b. Open Appropriations

Another option is one or a series of open appropriations to fund land management. An open appropriation would give the DNR the legal authority to draw sufficient money to cover their full land management costs directly from a fund, or group of funds. Open appropriations are usually structured around a formula that can be forecast over the budget period. In this case, the formula could be based on the average per unit management cost and the number of acres. Open appropriations can also be structured so that they pull from one fund, or from a group of funds based on a specific percentage breakdown. If one or more open appropriation was established, the agency would track its land management expenses and report them to Minnesota Management and Budget (MMB) on a periodic basis.

An open appropriation would ensure that there are always enough funds available to agencies to cover their managing public lands at a reasonable level. It would also allow land management expenditure to be tracked over time, and publicly reported. However, open appropriations are more difficult to modify according to state priorities, the way that direct appropriations can be changed.

Option 2: A State Fund for Land Management

The second funding method to accomplish the reasonable management state owned land or easements is to establish a state fund for land management, following a modified trust fund model. This option would generally require a large onetime appropriation to establish the corpus of the fund, which must be large enough to sustain land management need over a long period of time. The initial corpus of the fund would be drawn from funding sources such as the variety of funds described in the section above. Once money from various funds is deposited into a trust fund, they intermix and it becomes impossible to distinguish individual funding sources. For example, once the land management trust was established, it would be impossible to determine which dollars in the fund originated from the game and fish fund, the outdoor heritage fund, or some other funding source. In order to pursue this option, decision makers would have to

be comfortable with pooling money from different designated funding sources for the general purpose of state land management.

Once established, the state board of investment (SBI) would invest the money in the fund corpus, with the goal of receiving a maximum return on investment in the open market. Interest and investment earnings on the corpus would be additional funds available for the purposes of land management. Appropriations for land management activities could be made from the corpus of the fund, or from the interest accrued, or both. For example, the legislature could specify in law that 5 percent of the funds' corpus or the amount of interest accrued – whichever is greater -- is available to agencies for land management each year. This amount would not necessarily be sufficient to fill all land management needs, but annual disbursements could form a basic funding source that could work with additional direct appropriations.

Contributions would likely have to be made to the land management trust once it was established, to protect the overall solvency and health of the fund. For example, as new lands are acquired, additional monies beyond acquisition cost should be added to the trust fund. That is, appropriations for land acquisition could be coupled with contributions to support the on-going management of state lands. Such contributions to a management fund would be in recognition that land acquisition increases the state's overall land management responsibilities.

The overall health of the fund, including the amount of investment earnings and appropriations distributed to agencies, would be continuously tracked and monitored. Information on the status of the fund would be made publically available via MMB's biannual fund statements, as is done with all funds in the state treasury.

The trust fund option has both benefits and drawbacks. One benefit is that it approaches land management as a long-term state-wide problem, requiring a long-term state-wide solution. The fund would also be relatively transparent and easy to administer, because it would be centrally invested by SBI and tracked by MMB. Also, this is the only financing option in this report that has the potential to generate an income stream for land management, through returns on SBI's investment activities. However, it would be difficult to fund sufficient funds to establish the corpus of the fund at this time, given the current financial position of the state and the general fund. Through creating a designated fund, the legislature would create a barrier using these funds for other purposes in the future, as needed.

Option 3: Establish Separate Dedicated Accounts for Land Management Within Existing State Funds

The state could establish separate dedicated accounts for land management within a variety of existing state funds like "mini-trust funds." For example, a dedicated account for land management could be created within the natural resources fund, the game and fish fund, the parks and trails fund, etc. Each account would be established using appropriations from the funds in which they sit. These individual funds would be smaller than the state trust fund described in option 2, and, as a result, they likely cannot be expected to generate additional investment earnings to be appropriated for land management. Instead, each account would receive a portion of the current investment earnings gained on the larger fund in which they are housed. The intention would be that any new land acquisition appropriations originating from those larger funds would be coupled with contributions to the land management account within the fund, as an acknowledgement that land acquisition increases ongoing land management needs for the state. As a matter of state policy, dedicated accounts are not created within the general fund.

Establishing dedicated land management accounts within existing funds does have an added benefit over option 2 of allowing the sources and uses of funds to be separately tracked. The dedicated accounts could be used specifically to manage lands that were acquired using money from the funds in which they sit. However, these accounts would not generate significant new revenue as in option 2, and would be potentially administratively burdensome for the agencies responsible for their management.

Option 4: Establish Land Management Accounts With Each Individual Appropriation or Parcel

There has been some discussion of establishing individual land management accounts to accompany any land acquisition appropriation or newly acquired parcel, going forward. While this option would set aside management money for each new state land acquisition in the state, it has a number of drawbacks. This option is potentially burdensome for both program and fiscal staff. DNR staff would have to track their management activity time to accounts attached to particular parcels or appropriations. The numerous accounts that this approach would create would require close, continuous monitoring.

Furthermore, this option could lead to inefficiencies if DNR was required to structure their management activities based on which parcels or appropriations had money still available in their management designated accounts. As the money in individual accounts was used up, it could lead to questions about the worth of continued state investment in particular pieces of land.

It has also been suggested that state money for land management be kept in private accounts. For example, if state funds were appropriated to a private non-profit for the management of a particular piece of land, those funds might be held within the organization, in perpetuity. From MMB's perspective, this would set an ill-advised precedent for the management and tracking of state funds. Private organizations are not integrated into the state accounting system, and therefore their accounts cannot be continuously tracked and monitored in the same way that funds are monitored within the state treasury. Financial transactions within private organizations may not be transparent as state agencies. If state funds were to be held in perpetuity by private organizations, MMB would expect those organizations to be subject to the same monitoring and reporting requirements as state agencies in the use of public funds.

IV. MMB Recommendations

Minnesota Management and Budget recommends that the state decision makers direct appropriate funds for land management through the existing biennial budget process, as described in option 1a. Direct appropriations are preferable over other funding methods because they allow the state to set and modify funding levels for land management in the context of overall state priorities, and to adjust appropriation levels as those priorities evolve.

All other funding options described above involve designating on-going funding for land management in a way that limits or restricts state decision makers' ability to reprogram funds. Setting aside designated funding decreases flexibility in the future use of state funds, and would decrease the government's ability to fund programs based on needs and priorities. In these difficult financial times, there is a great need to fund state programs and activities based on the priorities of the legislature and the people of Minnesota.

Regardless of what funding method the state decision makers decide to pursue, MMB further recommends that funding for land management be kept within the state treasury for the sake of transparency and accountability. Funds within the state treasury are managed within the state accounting system, and can therefore be closely monitored to ensure responsibility and accountability in the use of state funds.

Appendix 1: Funding Option Summary Chart

Funding Method	Pros	Cons
<p>Option 1: Biennial appropriations.</p> <p>Description: Direct appropriate funding for land management from a variety of sources via the regular biennial budget process, or establish one or more open appropriations for land management.</p>	<p>Direct Appropriations</p> <ul style="list-style-type: none"> • Allows funding levels for land management to be set in accordance with state priorities. • Funding levels can be altered as priorities change over time. • Maintains control over which activities take priority within the broad range of land management needs and activities. • Gives the legislature control over which funding sources will be designated for specific land management proposes. <p>Open Appropriations</p> <ul style="list-style-type: none"> • Ensures sufficient funding for land management activities. 	<p>Direct Appropriations</p> <ul style="list-style-type: none"> • Does not necessarily provide a consistent stream of funds for land management, as appropriation levels would change to reflect shifting priorities. <p>Open Appropriations</p> <p>Less responsive to changing priorities.</p>
<p>Option 2: Designated state fund for land management activities.</p> <p>Description: Establish a statewide trust fund for land management activities, and give appropriations from interest on the corpus of the fund.</p>	<ul style="list-style-type: none"> • Approaches land management as a statewide problem. • Interest on the fund would provide a revenue stream to for land management. • This fund would potentially encourage the consideration of land management needs when appropriating funds for land acquisition. The hope would be that future land acquisition appropriations would be coupled with contributions to this land management fund, to support the on-going management of lands acquired. 	<ul style="list-style-type: none"> • Designating funds to land management would decrease the legislature’s ability to balance these needs with other state priorities in the future. • It would be difficult to find a funding source to establish the corpus of a new state fund at this time. • The fund would inter-mix different funding sources, which could lead to concerns about the use of particular designated funds. • The amount of funding generated from interest on the corpus would not necessarily be enough to fill the budget gap for land management.
<p>Option 3: Designated “trust fund” accounts within existing state funds.</p> <p>Description: Creates a trust-fund-like account within each state fund that supports</p>	<ul style="list-style-type: none"> • These funds would potentially encourage appropriations for land acquisition from these funds to be coupled with support for the on-going management of acquired lands. • This approach would allow different funding sources for land management 	<ul style="list-style-type: none"> • Designating funds to land management would decrease the ability to balance these needs with other state priorities in the future. • Administratively burdensome for agencies managing these funds.

<p>land acquisition or management. These funds are then used to support land management activities on lands purchased by that fund.</p>	<p>to be separately tracked.</p>	<ul style="list-style-type: none"> • Designated accounts would not generate an investment earnings revenue stream as a single trust fund would.
<p>Option 4: Appropriation or parcel level accounts.</p> <p>Description: Individual appropriations for land acquisitions could set aside funds in designated accounts for land management of the parcels involved.</p>	<ul style="list-style-type: none"> • Would designate some management money for each state land acquisition. 	<ul style="list-style-type: none"> • Administratively burdensome. • Could lead to management inefficiencies as program staff manage and oversee individual parcels based on available funding. • Individual trust fund accounts could easily run out of funds or keep a high balance on a parcel-by-parcel basis, leading to questions about the worth and state investment in individual parcels. • Could lead to state money being held in perpetuity by private organizations that receive state appropriations to purchase individual parcels. Private organizations are not financially transparent, and would have limited accountability in the use of state funds, relative to state agencies.

Appendix 2: Laws of Minnesota 2010 Land Management Budget Analysis Requirements

Laws of Minnesota, Chapter 361, Article 1, Section 10:

Sec. 10. LAND MANAGEMENT RECOMMENDATIONS.

The commissioner of management and budget, in consultation with the commissioner of natural resources and the Board of Water and Soil Resources, shall prepare recommendations to the legislature on methods to accomplish the reasonable management, care, restoration, and protection of land acquired in fee title or easement. The commissioner of management and budget shall submit a report to the chairs of the house of representatives and senate committees and divisions with jurisdiction over environment and natural resources finance and cultural and outdoor resources finance by January 15, 2011.

Laws of Minnesota, Chapter 361, Article 4, Section 74:

a) The commissioner of natural resources, in consultation with the commissioner of management and budget, shall estimate the total amount of funding available from all sources for each of the following land management categories: wildlife management

areas; state forests; scientific and natural areas; aquatic management areas; public water access sites; and prairie bank easements. The commissioner of natural resources shall prepare a ten-year budget analysis of the department's ongoing land management needs, including restoration of each parcel needing restoration. The analysis shall include:

- (1) an analysis of the needs of wildlife management areas, including identification of internal systemwide guidelines on the proper frequency for activities such as controlled burns, tree and woody biomass removal, and brushland management;
- (2) an analysis of state forest needs, including identification of internal systemwide guidelines on the proper frequency for forest management activities;
- (3) an analysis of scientific and natural area needs, including identification of internal systemwide guidelines on the proper frequency for management activities;
- (4) an analysis of aquatic management area needs, including identification of internal systemwide guidelines on the proper frequency for management activities; and
- (5) an analysis of the needs of the state's public water access sites, including identification of internal systemwide guidelines on the proper frequency for management activities.

(b) The commissioner shall compare the estimate of the total amount of funding available to the department's ongoing management needs to determine:

- (1) the amount necessary to manage, restore, and maintain existing wildlife management areas, state forests, scientific and natural areas, aquatic management areas, public water access sites, and prairie bank easements; and
- (2) the amount necessary to expand upon the existing wildlife management areas, state forests, scientific and natural areas, aquatic management areas, public water access sites, and prairie bank easement programs, including the feasibility of the department's existing long-range plans, if applicable, for each program.

(c) The commissioner of natural resources shall submit the analysis to the chairs of the house of representatives and senate committees with jurisdiction over environment and natural resources finance and cultural and outdoor resources finance by November 15, 2010.