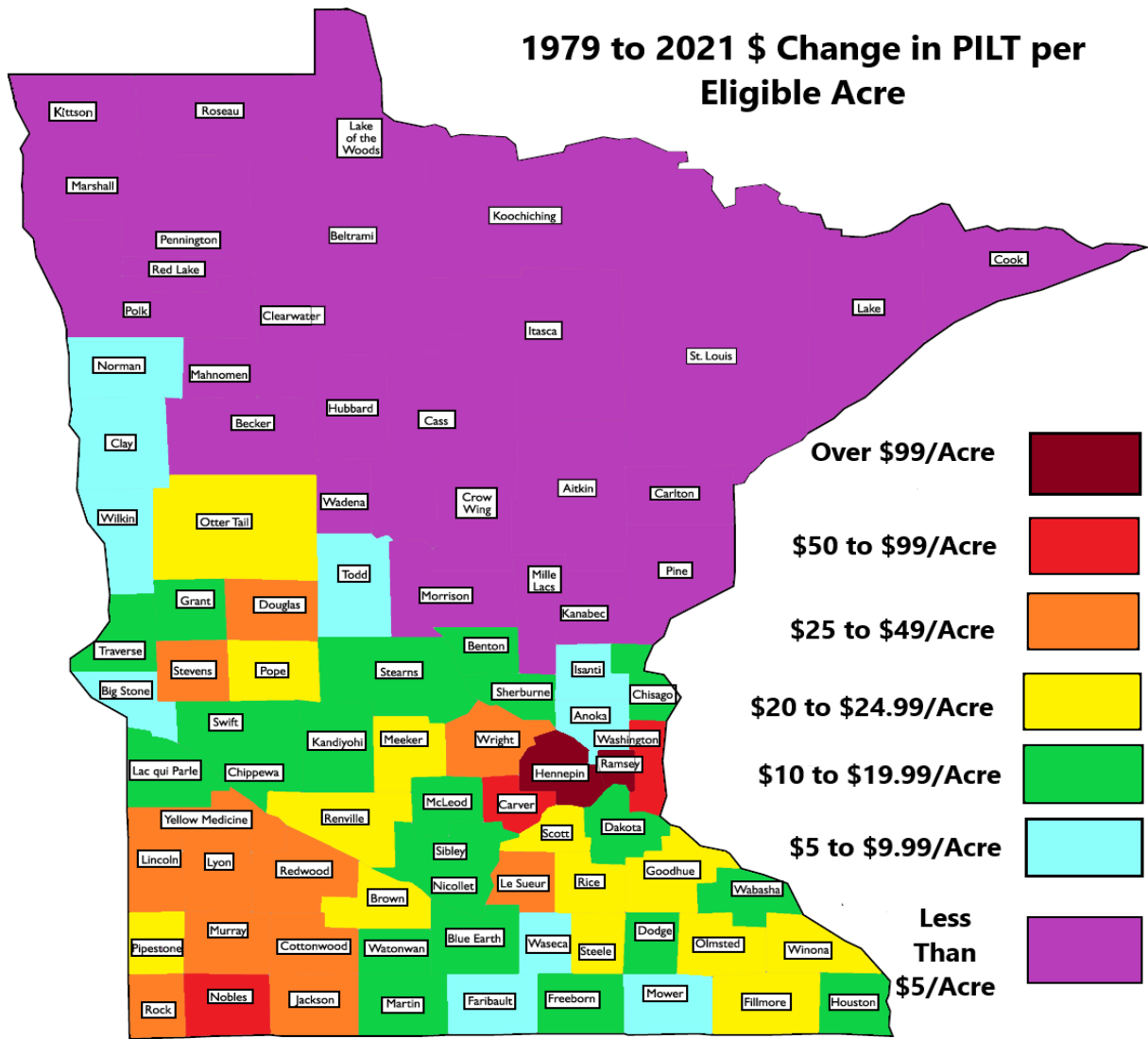
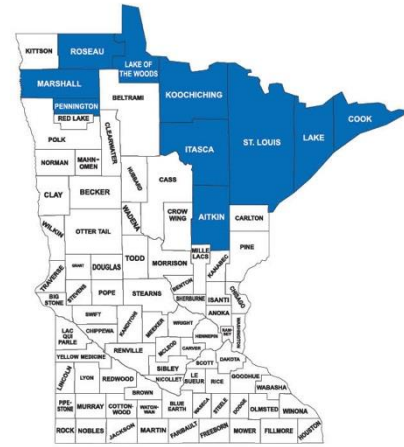


# PURSUING EQUITY: PAYMENT IN LIEU OF TAXES (PILT) STUDY-2022



**NORTHERN COUNTIES LAND USE COORDINATING BOARD  
(NCLUCB)**





# NORTHERN COUNTIES LAND USE COORDINATING BOARD

## INTRODUCTION

This report presents the findings of a study authorized by the Northern Counties Land Use Coordinating Board (NCLUCB). NCLUCB was created in 1983 as a joint-powers board to provide a local government perspective on the regulation, implementation, and coordination of environmental and natural resource polices with state and federal partners. It consists of the counties of Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau and St. Louis. NCLUCB member counties encompass: **20%** of the state’s land area; **45%** of the state’s surface waters; **46%** of the state’s wetlands; **65%** of the state’s forest lands; **70%** of the state’s public lands and; **5% of the state’s aggregate net tax capacity**. We are a region rich in natural resources subject to the realities of a rural economy. Payment in Lieu of Taxes (PILT) is critical to the fiscal stability of our NCLUCB counties. This study examines the several contradictions between the legislative intent expressed in state statute and the distribution of PILT funds state-wide.

NCLUCB contracted with Keith Carlson to conduct this study. Mr. Carlson is a former fiscal analyst for the Minnesota Senate Tax Committee where he worked for twenty-one years on income, sales, taconite production and property tax issues as well as state aids and other property tax relief issues including PILT related legislation. He also served on the 2011-12 PILT Report Commissioners’ Advisory Committee as a Subject Matter Expert.

NCLUCB county commissioners are concerned by the growing geographic disparity between public land ownership and PILT payments. For example, **just six counties** – Aitkin, Beltrami, Itasca, Koochiching, Lake of the Woods and St. Louis - **contain 62% of all the PILT acres** in Minnesota but yet **receive only 39% of the total PILT payments**. This disparity widens every six years as new land values are assessed and used for the relevant PILT calculations.

This report provides an analysis of whether a county’s PILT equals, exceeds or underpays relative to what the county property taxes would be on the tax-exempt PILT land. The analysis documents that there is a shortfall in PILT payments for a significant number of counties.

The 2012 legislature recognized many of these issues by establishing three principles of legislative intent to guide future PILT distributions codified in Minn. Stat. § 477A.10. Particularly relevant to this report is section 2 of the statute: **“to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land.”** This report illustrates the discrepancy between policy aspirations and reality.

Thank you for your time and consideration.

Respectfully,

Northern County Land Use Coordinating Board

**Aitkin County:**

Ann Marcotte, Chair

Brian Napstad

**Cook County:**

Robert Svaleson

**Itasca County:**

Terry Snyder

Ben DeNucci

**Koochiching County:**

Wayne Skoe

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Ed Arnesen

**Marshal County:**

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**Pennington County:**

Neil Peterson, Vice-Chair

Darryl Tveitbakk

**Roseau County:**

Daryl Wicklund

**St. Louis County:**

Mike Jugovich, Treasurer

Paul McDonald

## EXECUTIVE SUMMARY

This report presents the results of a study authorized by the Northern Counties Land Use Coordinating Board (NCLUCB). NCLUCB was created in 1983 as a joint powers board consisting of the counties of Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau and St. Louis. It was created to provide a local government perspective on the regulation, implementation, and coordination of environmental and natural resource polices with our state and federal partners.

The purpose of this study is to analyze whether Payment in Lieu of Taxes (PILT) is meeting its statutory purpose: Minn. Stat. § 477A.10

- (1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land; •**
- (2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and •**
- (3) to address the need to manage state lands held in trust for the local taxing districts.**

PILT was enacted in 1979. Its initial purpose was to compensate local governments for the direct and indirect costs related to state-owned natural resource land. All eighty-seven (87) counties receive PILT with some of those monies shared with townships and school districts.

The major categories of PILT lands are:

**Acquired Natural Resources Land (NRL)**- Land administered by DNR that was generally acquired by purchase, condemnation, or gift. Includes wildlife management land reported separately after 2012.

**DNR-Administered Other Natural Resources Land**- Land, other than acquired natural resource land, owned by the state and administered by the DNR such as school trust land.

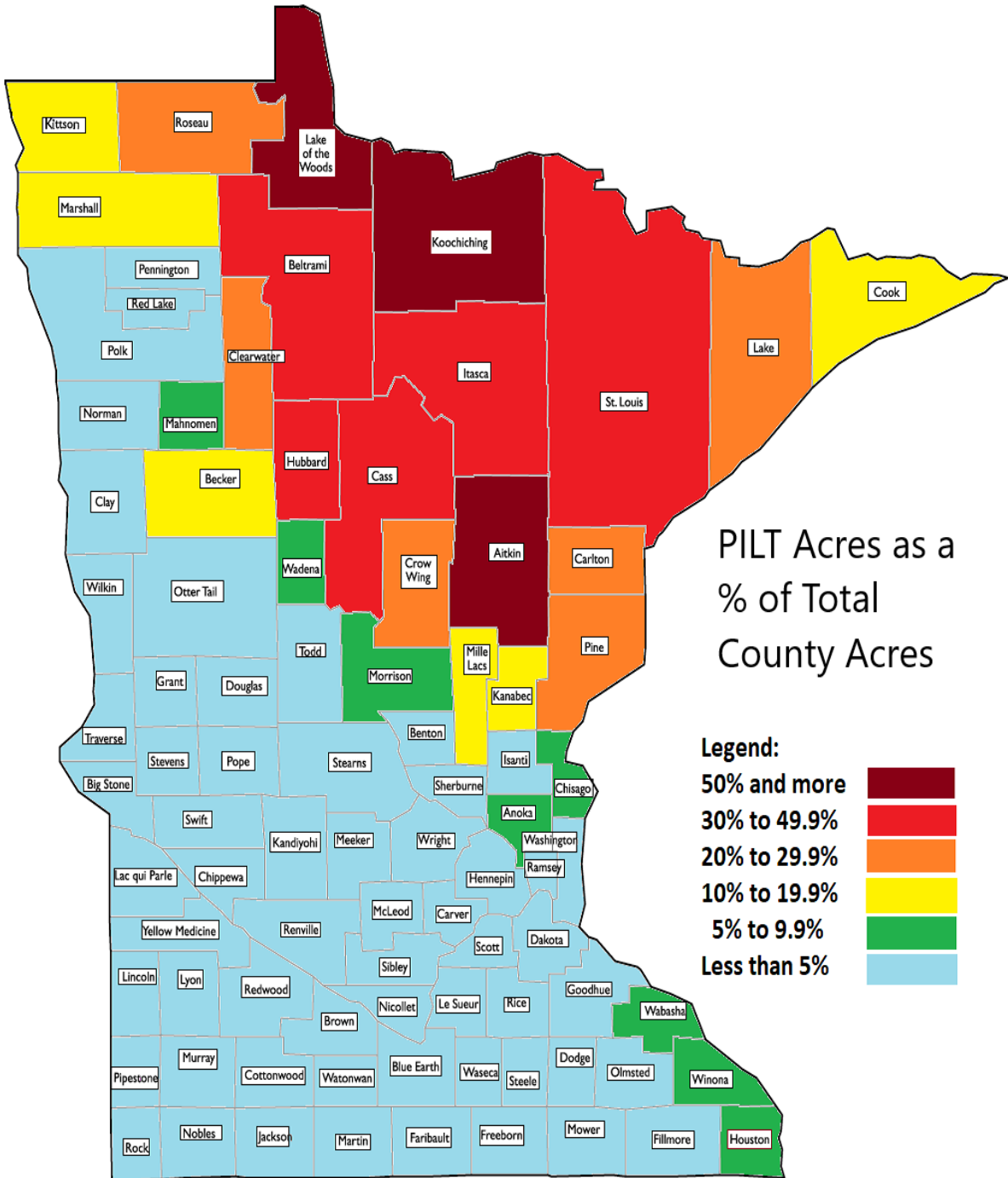
**County-Administered Other Natural Resources Land**- Generally tax-forfeited land, other than platted lots within a city.

PILT payments have increased 460%, or \$30.8 million over its 41-year history. However, PILT’s distribution among the counties has been very unequal – not aligned with the geographic location of PILT land, which is concentrated in northern Minnesota.

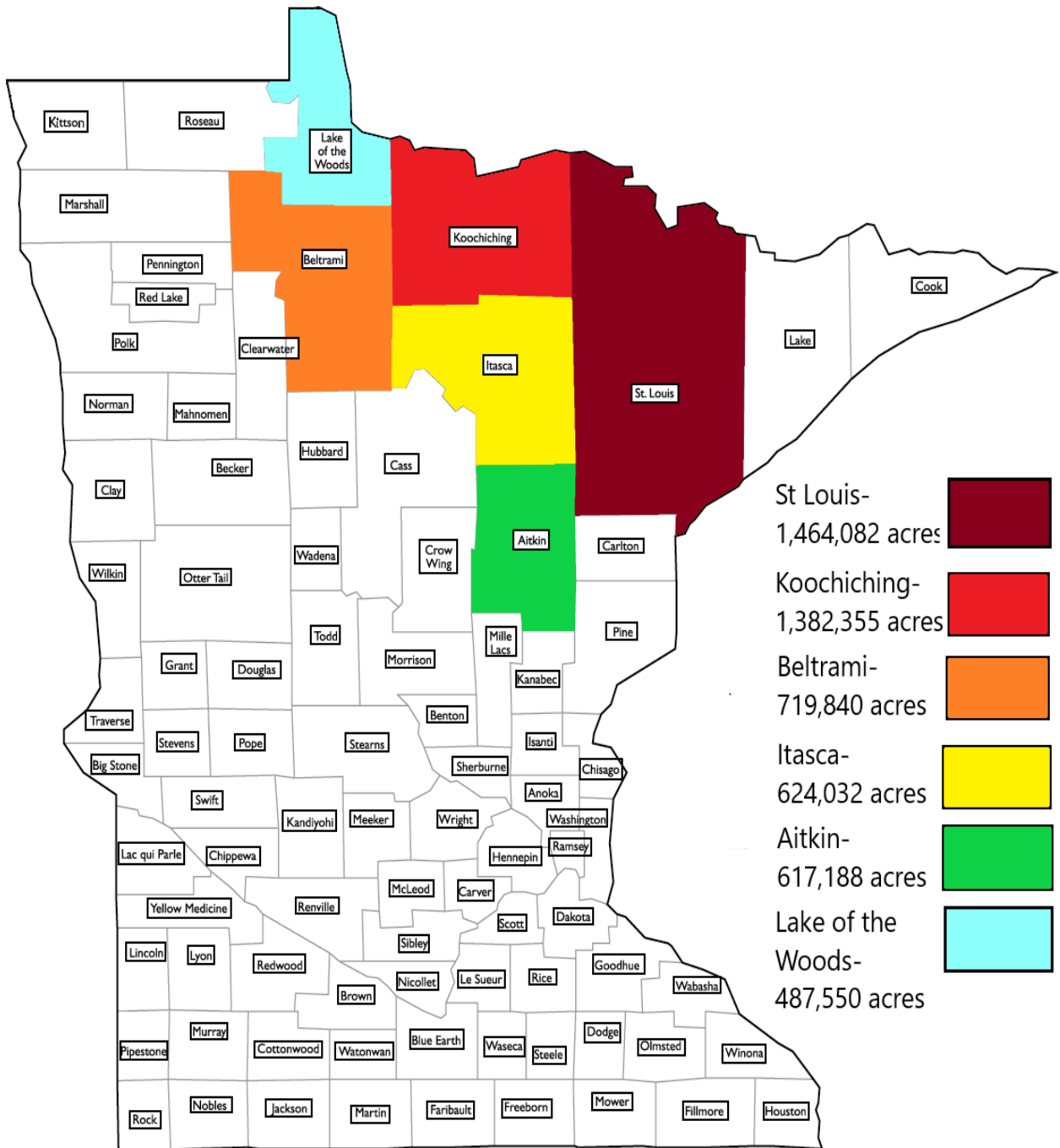
<b>Table 1</b>				
<b>1979 to 2021 Change in PILT by Major Categories</b>				
<b>PILT Category</b>	<b>1979</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Acquired NRL*</b>	\$1,653,972	<b>\$21,233,219</b>	<b>\$19,579,247</b>	<b>1083.8%</b>
County-Administered Other NRL	\$2,099,394	\$5,569,943	\$3,470,549	65.3%
DNR-Administered Other NRL	\$1,759,083	\$8,191,521	\$6,432,438	265.7%

\*Includes Wildlife Management Land

## 95% OF PILT LAND IS IN NORTHERN MN

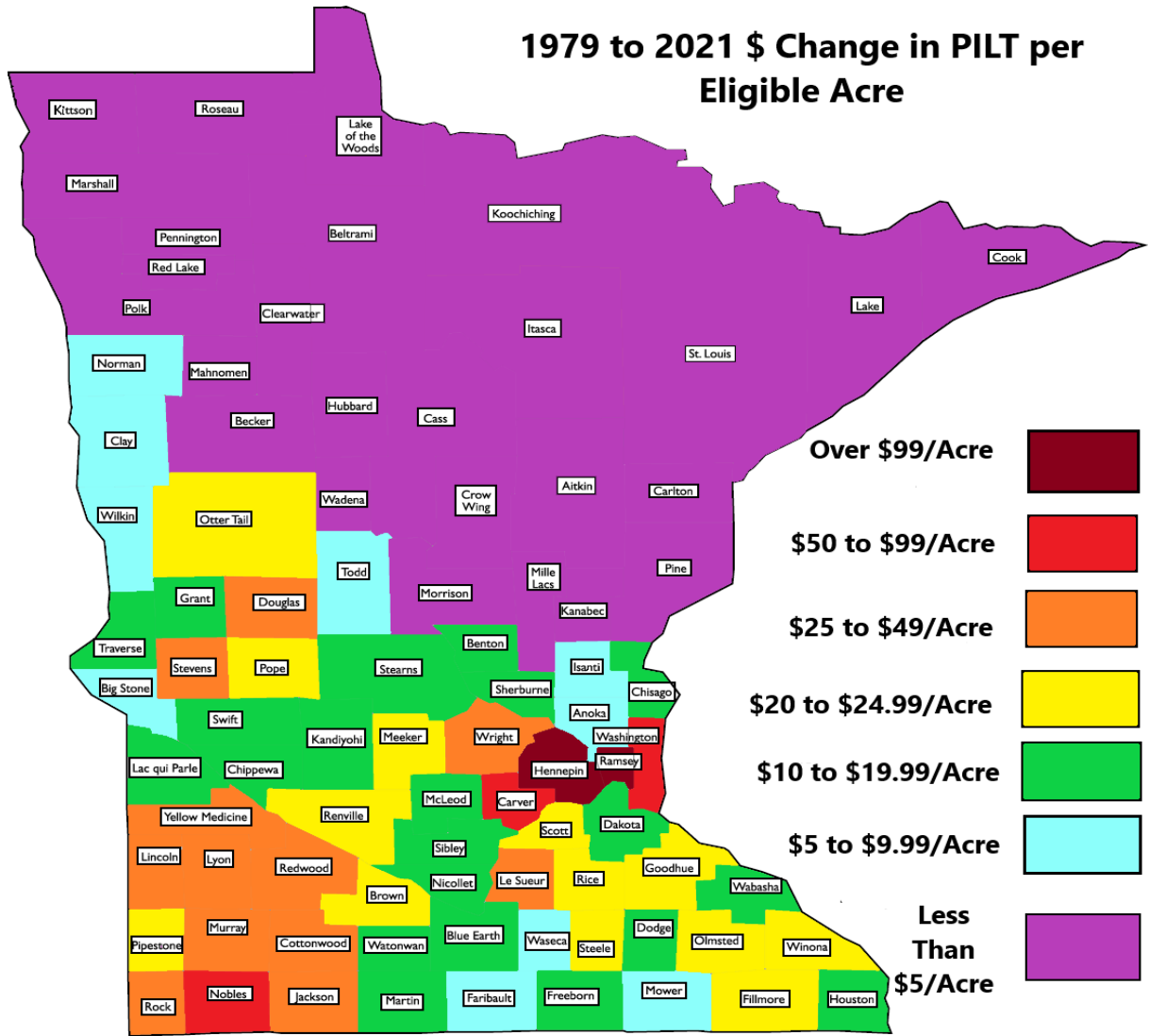


**SIX COUNTIES CONTAIN 70% OF PILT LAND  
YET ONLY RECEIVE 40% OF TOTAL PILT PAYMENTS**



Northern counties have seen only nominal changes in PILT payments over the last 41-year history; increasing minimally by an average of **\$2.51 per acre**. In comparison, southern counties received an average PILT payment increase of **\$24.43 per acre**. A few counties received PILT payment increases of over \$100 per acre.

**NORTHERN COUNTIES HAVE THE LARGEST AMOUNT OF PILT LANDS AND RECEIVE THE LOWEST DOLLAR INCREASES- LESS THAN \$5 PER ACRE**



The study revealed reasons why PILT increases have become inequitable which includes: only Acquired NRL and Wildlife Management Land PILT payments are based on value (all other PILT payments are based on a flat-rate); hyper-inflation that occurs in only those value-based payments and; the failure to take into account lost development opportunities.

PILT payment rates per acre are far more generous for Acquired NRL than the other major categories of PILT lands. The 77 counties that have elected the more generous ¾ of 1% appraised value payment option, on average, receive **\$22.17 per acre, nearly double the rate of inflation**, for their Acquired NRL.

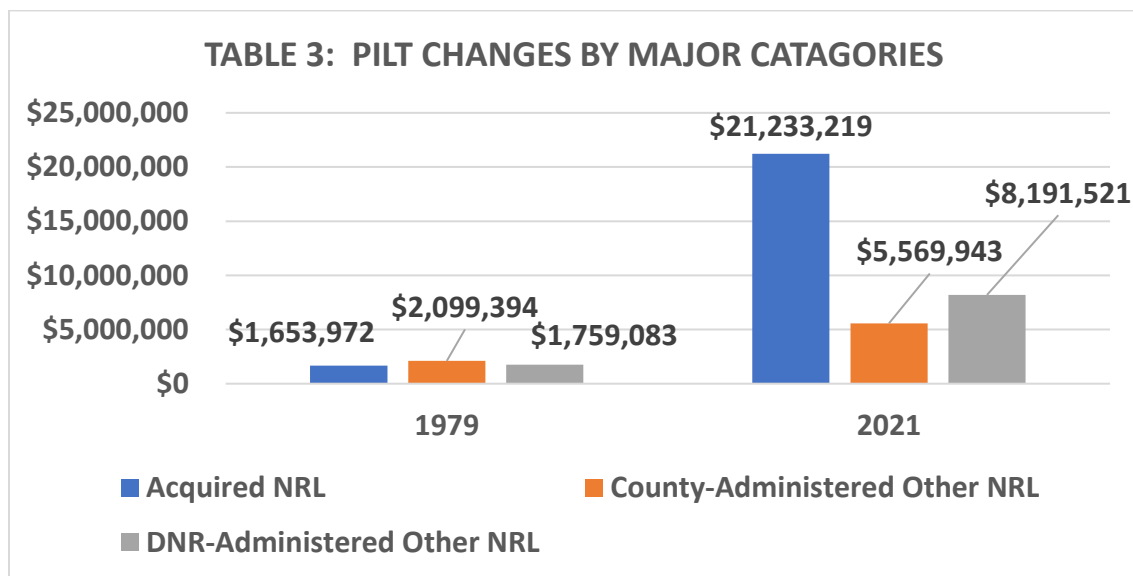


The original and current PILT reimbursement rates by major category are shown below:

**Table 2  
PILT Reimbursement Rates**

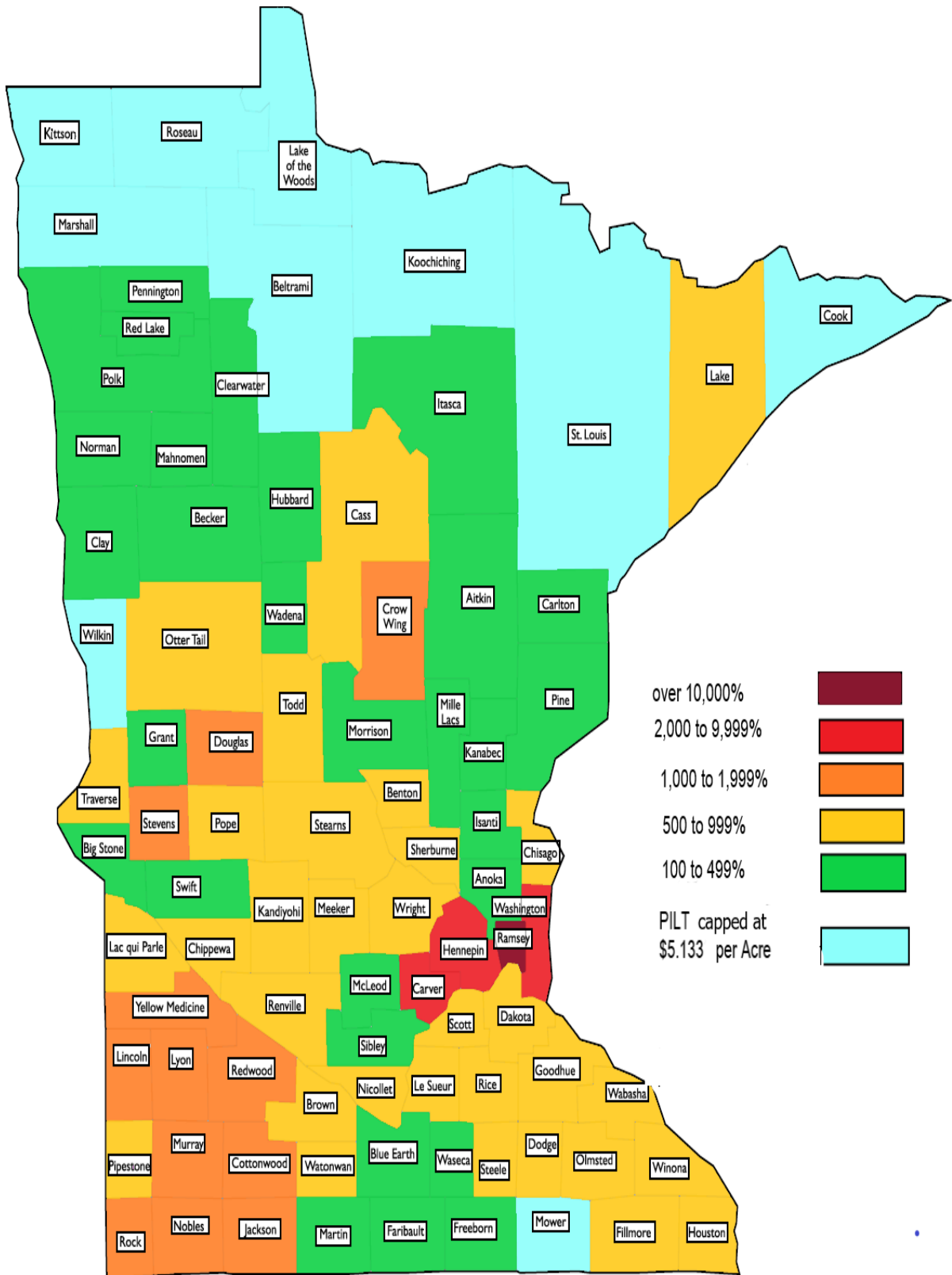
Category	1979	2021
Acquired Natural Resources Land	\$3/Acre	\$5.133/Acre or ¼ of 1% of Appraised Value, whichever is higher
County-Administered Other Natural Resources Land	\$.75/Acre	\$2/Acre
(DNR) Commissioner-Administered Other Natural Resources Land	\$.375/Acre	\$2/Acre

Tables 3 and 4 show the disproportionate changes in PILT statewide by the major categories.

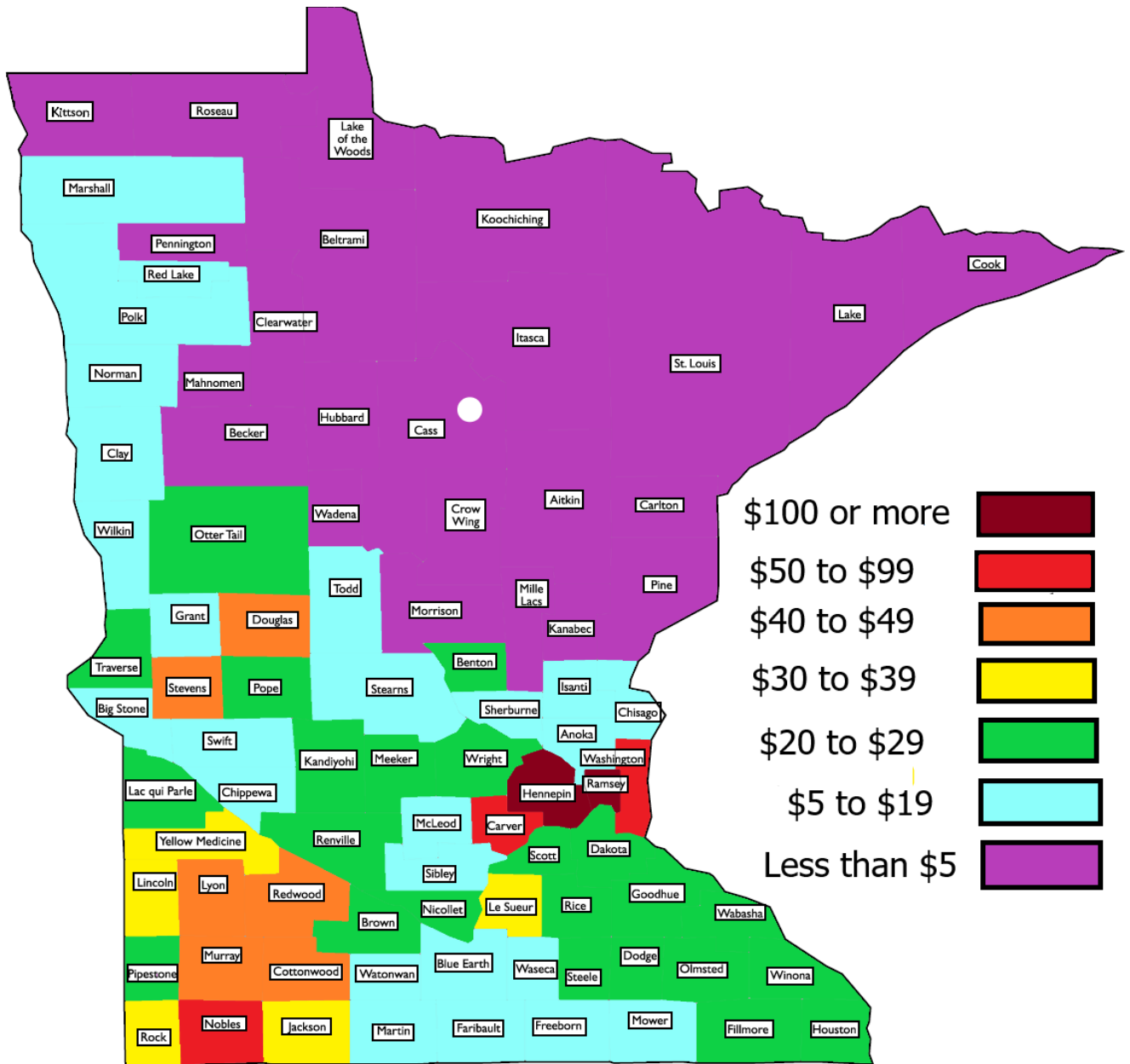


<b>Table 4 1980 to 2021 PILT Change by Major Category</b>		
PILT Category	\$ Change	% Change
Acquired NRL	\$19,579,247	1083.8%
County-Administered Other NRL	\$3,470,549	65.3%
DNR-Administered Other NRL	\$6,432,438	265.7%

# ACQUIRED NRL VALUATION CHANGES FROM 1980 to 2020

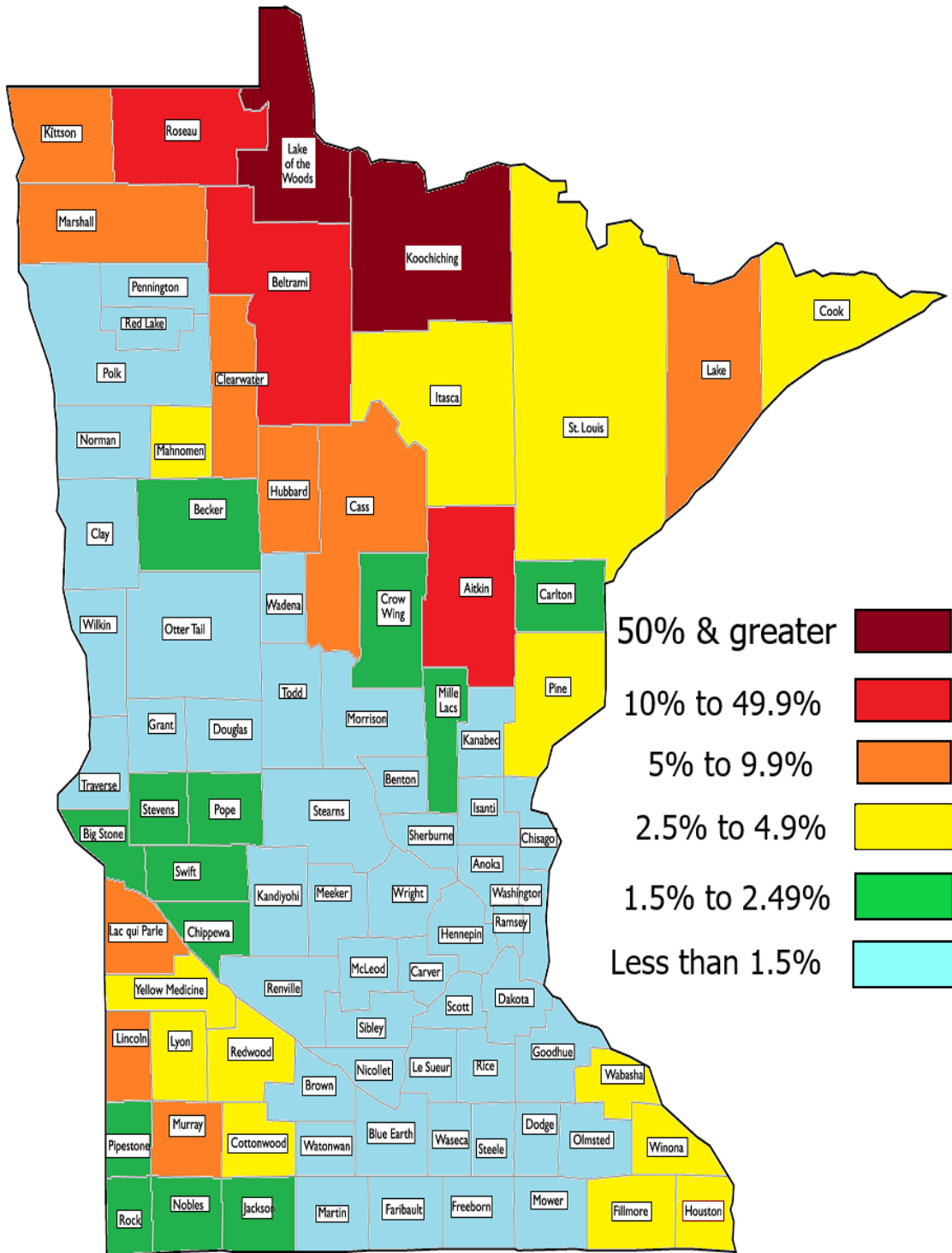


## AVERAGE PER ACRE PILT PAYMENTS IN 2020



In 1995, before the  $\frac{3}{4}$  of 1% appraised value option went into effect for Acquired Natural Resources Land, the PILT per acre paid to the highest-compensated county was **8 times** that paid to the lowest-paid county. By 2020, the difference had grown to **170 times**.

## 2020 PILT AS A PERCENT OF 2020 COUNTY CERTIFIED LEVY



## PROPERTY TAX IMPACTS OF PILT

Compensating “*local units of government for the loss of tax base from state ownership of land and the need to provide services for state land*” is one of the statutory purposes of PILT. See, Minn. Stat. § 477A.10.1. PILT is a larger percentage of the northern counties’ property tax levies where PILT lands are concentrated and are a large portion of the counties’ total acreage. The degree of a county’s reliance on PILT is directly related to the loss in tax base from the tax exemption of PILT land.

Not only do counties lose tax base due to PILT lands’ tax exemption, they also forego the “opportunity” of increased tax base from the development on lakeshores within PILT land.

An analysis prepared for this study determined whether a county’s PILT equals, exceeds or underpays relative to what the county property taxes would be on the tax-exempt PILT land. The analysis estimated that there was a shortfall in PILT payments for this purpose in about half the counties. The ten counties with the largest estimated shortfall in PILT relative to what would be raised if the PILT land was taxable is shown in the table below.

<b>TABLE 5</b>	
<b>County</b>	<b>(Shortfall) of County Share of PILT Relative to Estimated County Tax on PILT Land</b>
St. Louis	(\$4,610,486)
Itasca	(\$2,283,012)
Aitkin	(\$1,695,570)
Cass	(\$1,359,627)
Carlton	(\$759,851)
Beltrami	(\$595,818)
Pine	(\$592,549)
Cook	(\$572,267)
Clearwater	(\$539,984)
Hubbard	(\$522,791)

Valuation determined from the County Exempt and PILT Property Report- 2016.

Per MN Statutes 477A.10, the purpose of PILT is:

- (1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land;**
- (2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and**
- (3) to address the need to manage state lands held in trust for the local taxing districts.**

Our analysis compared the amount of 2020 PILT received by the county to the valuation of all their PILT land, multiplied by the pay 2020 county tax rate. It clearly shows a number of counties' payments are coming up short in meeting PILT's statutory purposes.

### **RECOMMENDATION #1**

**Increase PILT for County and DNR Administered Other Natural Resources Land \$1 Per Acre:**

**Cost. – \$6.9 million.**

This study analyzed whether PILT effectively compensates counties “for the loss of tax base from state ownership of land”. For half the counties, PILT is not adequately compensating them for the tax base loss due to the tax-exempt status of PILT land. Fifteen of the counties suffering the largest loss are northern Minnesota counties. All of these counties also share the distinction of receiving PILT payments of less than \$5 per acre. The absence of any significant growth in PILT for these, and several of the other undercompensated counties for the tax-exempt status of PILT land, demands that PILT payments need to be increased for those counties.

### **RECOMMENDATION #2**

**Create a new category of PILT for counties with a high-concentration of PILT land equal to:**

- **18¢ per PILT acre for counties where PILT land is 25% or more of its total acreage or**
- **8¢ per PILT acre for counties where PILT land equals or exceeds 10% or more but less than 25% of its total acreage.**

**Cost. – \$3.4 million**

As shown in the previous maps, 95% of Minnesota's 8 million acres of PILT lands are concentrated in northern Minnesota. These same maps also show that in counties where PILT land is 10% or greater, the counties average **less than \$5 per acre** in PILT payments. In contrast, counties where PILT land is less than 10% of the county's total acreage, they receive an average PILT payment of **\$30.49 per acre**. Paradoxically, PILT payments substantially increase in a county where PILT acreage is minimal and PILT payments decrease in a county where PILT acreage is significant.

### **RECOMMENDATION #3**

**Index PILT's per acre rates for inflation.**

**Cost - Depends on rate of inflation and is only in future bienniums.**

The per acre rates for PILT payments should be indexed for inflation so they can grow just like the PILT payments for Acquired Natural Resources Land and Wildlife Management Lands do right now for the vast majority of counties who elect the 3/4 of 1% payment option. The per acre payment rates were indexed from 2001 until 2011 when the legislature repealed future, automatic increases for County- and DNR-Administered Other Natural Resources Land but not for Acquired Natural Resources Land and Wildlife Management Lands whose payments have continued to grow for those counties electing the 3/4 or 1% payment option.

### **RECOMMENDATION # 4**

**Study the adequacy of current PILT payments for state-owned lakeshore.**

**Cost - Negligible**

Those counties containing Acquired NRL with lakeshore receive PILT payments based on the value of that lakeshore. In the northern counties where the other categories of PILT land, County- and DNR-Administered Other Natural Resources Land – predominate, their lakeshore does not qualify for payment based on the 3/4 of 1% of appraised value option. Documentation via the study would identify the valuation of that land and allow exploration of options to redress the imbalance in PILT payments on lakeshore. This recommendation is consistent with the 1994 DNR study entitled Payment in Lieu of Taxes Study Ad Valorem vs. Current Payment of State-Owned Land, which also recommended a more in-depth study of this issue.

### **RECOMMENDATION # 5**

**Add a hold-harmless provision into statute for the Acquired NRL and Wildlife Management Land.**

**Cost – Depends on 2022 reassessment**

Every six years, the valuation used for computation of PILT for Acquired Natural Resources Land and Wildlife Management Land is redetermined by local assessors. Possibly due in part to the impacts of the 2007-2008 Great Recession, the valuation for rural vacant land largely used for computation of PILT for these lands fell in 37 counties between 2010 and 2016. Those lower values were used for computation of PILT for the following six years. The reductions in valuation and their corresponding PILT were as high as (38.5%).

\*Please note: while this report does highlight the current inequities in distribution within the PILT program, it does not advocate for a redistribution of existing funds. The report does, however, advocate for an increase in PILT funding to remedy the inequities identified.

The complete report may be located at <https://www.nclucb.org> after March 15, 2022.

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Contributor, John Ongaro, Government Relations Director, St. Louis County, MN

All materials prepared for this report including documents, computer data, calculations, maps, reports and analyses specific to this report are the sole property of the Northern Counties Land Use Coordinating Board (NCLUCB). For further information please refer to NCLUCB website: [nclucb.org](http://nclucb.org)