



Minnesota's School Trust Lands

FY18-19 Biennial Report

About This Report

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Executive Summary

Minnesota's school trust lands comprise over 2.5 million acres of land (surface and mineral rights) and an additional 1 million acres of severed mineral rights distributed across much of the state, especially in the northeast. The lands include forests, agricultural and grazing lands, riparian shores, wetlands, aggregate and large deposits of minerals. Mineral royalties, followed by timber and land sales, are the primary historic revenue sources from Minnesota's school trust lands. Title to the school trust lands is vested in the State of Minnesota, in trust, for the benefit of public schools. The Department of Natural Resources (DNR) manages the school trust lands.

The Permanent School Fund (PSF) is a trust, established in the Minnesota State Constitution, Art. XI, sec. 8 and designated as a perpetual source of revenue for Minnesota's public schools. The department manages the physical lands as a trustee. This obligation imposes fiduciary responsibilities on the department when managing state-owned, school trust assets. The department is not obligated to manage non-trust assets for the benefit of the trust.

School trust lands are managed according to the statutory goal of the PSF, outlined in Minn. Stat., sec. 127A.31 and stated as follows: "The legislature intends that it is the goal of the permanent school fund to secure the maximum long-term economic return from the school trust lands consistent with the fiduciary responsibilities imposed by the trust relationship established in the Minnesota Constitution, with sound natural resource conservation and management principles, and with other specific policy provided in state law."

The DNR generates revenue on school trust lands from school trust assets (i.e., resources) through mineral lease rental fees, mineral lease royalties, forest product sales, surface lease payments, land sales, utility crossing rights-of-way fees, interest, damage costs and other contract receipts. The DNR transfers revenues and other income, less expenses allowed under state law, from these management activities into the PSF.



MANAGEMENT ACTIVITIES PROVIDED \$39.69 MILLION IN INCOME DISTRIBUTIONS TO THE PERMANENT SCHOOL FUND DURING THE FY18-19 BIENNIUM.

In FY18 (7/1/17 – 6/30/18), the total distribution to the PSF was \$14.29 million from management activities involving minerals, forest products, surface uses and land sales. Mineral leasing rental and royalty payments accounted for \$12.57 million of the distribution to the PSF. Forest products and surface leasing contributed \$1.38 million and real estate revenue supplied an additional \$343,347 in distributions.

In FY19 (7/1/18 – 6/30/19), the total distribution to the PSF was \$25.39 million from management activities involving minerals, forest products, surface uses and land sales. Mineral leasing rental and royalty payments accounted for \$21.43 million of distributions to the PSF. Forest products and surface leasing contributed \$3.77 million and real estate revenues supplied an additional \$194,400 in distributions.

Financial Summary

Figure 1. School Trust Financial Summary

| | Fiscal Year 2018 | Fiscal Year 2019 |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Mineral Leasing Activity * | | |
| Lease Revenues & ITC Interest (100%) Directly Deposited to PSF | \$ 132,553 | \$ 208,947 |
| Lease Revenues (80%) Directly Deposited to PSF | \$ 12,114,549 | \$ 19,184,715 |
| Lease Revenue Deposited in PSF | \$ 12,247,102 | \$ 19,393,662 |
| | Fiscal Year 2018 Activity for Transfer in Fiscal Year 2018 | Fiscal Year 2019 Activity for Transfer in Fiscal Year 2019* |
| Minerals Management Account Transfer to PSF ** | | |
| Minerals Management Account Revenues | \$ 5,274,759 | \$ 6,158,052 |
| Prior Year Adjustments | \$ 153 | \$ 114 |
| Less Mineral Management Costs | \$ (2,952,839) | \$ (3,341,089) |
| Amount over \$3M distributed to PSF (74.9%), University Trust (2.5%), and Tax Forfeit (22.5%) <i>percentages are rounded</i> | \$ 432,415 | \$ 1,266,562 |
| Distributed to PSF | \$ 324,047 | \$ 989,649 |
| *** Quarter 4 Transfer to PSF | \$ | \$ 1,045,954 |
| Mineral Management Total | \$ 12,571,149 | \$ 21,429,265 |
| | Fiscal Year 2018 | Fiscal Year 2019 |
| Real Estate Activity | | |
| Land Sales & Condemnation Awards | \$ 2,000 | \$ 76,600 |
| Water Crossing Licenses & Deposition Lease | \$ 341,347 | \$ 117,480 |
| Real Estate Remainder Damage | \$ - | \$ 320 |
| Real Estate Management Total | \$ 343,347 | \$ 194,400 |
| | Fiscal Year 2017 Activity for Transfer in Fiscal Year 2018 | Fiscal Year 2018 Activity for Transfer in Fiscal Year 2019 |
| Timber and Surface Activity **** | | |
| Timber Sales Qualifying Revenues | \$ 10,029,572 | \$ 11,764,135 |
| Surface Uses Qualifying Revenues | \$ 1,173,397 | \$ 1,634,300 |
| Non Qualifying Revenues from Surface Uses | \$ 387,888 | \$ 735,872 |
| Subtotal | \$ 11,590,857 | \$ 14,134,307 |
| Less Forestry Certified Costs | \$ (9,260,789) | \$ (9,187,846) |
| Less DNR Appropriation Lands and Minerals | \$ (200,000) | \$ (206,000) |
| Less Dept of Admin Appropriation Trust Director | \$ (300,000) | \$ (277,548) |
| Less Dept of Admin Appropriation Trust Director Real Estate Projects | \$ (250,000) | \$ - |
| Less Dept of Admin Appropriation Trust Director BWCAW Surplus Sales | \$ - | \$ (500,000) |
| Less Dept of Admin Reimbursement for Trust Director for Costs | \$ (191,501) | \$ (185,000) |
| Less Perm School Fund Commission Reimbursement for Costs | \$ (5,432) | \$ (7,568) |
| Subtotal | \$ (10,207,722) | \$ (10,363,962) |
| Forest Management Total | \$ 1,383,135 | \$ 3,770,345 |
| Total to Permanent School Fund FY18 | \$ 14,297,631 | FY19 \$ 25,394,010 |

* Iron ore and taconite, mineral exploration, dimension stone projects, industrial minerals, stockpiled ore extraction, peat mining and interest income.

** Minerals Management Account represents revenue and cost detail for management of the entire 12 million acre mineral estate owned by the State of MN.

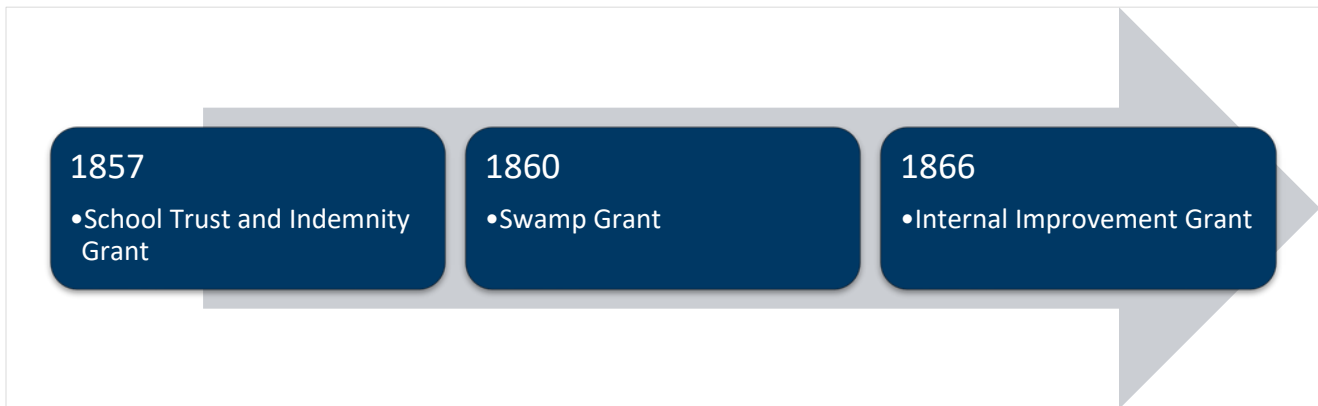
*** Minn. Stat., sec. 93.2236 amended in Laws of 2016 to make quarterly transfers. If over \$3M in quarter 4, the transfer is done in the next fiscal year.

**** Timber sales, timber damages, construction aggregate leases, state forest campgrounds, easements, surface leasing and land crossing licenses.

Minnesota's School Trust Lands History

Lands set aside in trust for the support of schools are a long established tradition in the United States. The roots of this extend back to colonial practice and to English tradition.¹ The new United States passed a General Land Ordinance in 1785, which allowed for the sale of western lands and provided for section 16 of each public land survey township to be set aside “for the maintenance of public schools, within the said township.”² With the formation of states from the western territories, these reserved lands would become state trust lands. This was first put into practice with the admission of Ohio to the Union in 1802. All states admitted to the Union since then have received some amount of school trust land,³ except those few cases where the federal government owned no land.

The federal Organic Act of 1849 created the Territory of Minnesota and reserved sections 16 and 36 of each public land survey township “for the purpose of being applied to the schools in said territory.”⁴ The federal Enabling Act of 1857 granted the Minnesota Territory these reserved lands, and the people accepted this grant with the adoption of a Constitution in October of the same year.⁵ Minnesota became the 32nd state on May 11, 1858.



Allowances were made if sections 16 and 36 had already been claimed before the land was surveyed, were reserved for an Indian reservation, or were under water. These "in lieu" lands were known as school indemnity lands. The grant ultimately resulted in 2.9 million acres being given the state for the support of the public schools. Also included in school trust lands today are the consolidation of remaining lands from two other federal land grants: the Swampland grant of about 4.7 million acres in 1860, and the Internal Improvement grant of 500,000 acres in 1866.

A State Land Office was established in 1863. This office managed the trust lands until 1931. In 1931, the Department of Conservation replaced the State Land Office as manager of state trust lands. The Department of Conservation was renamed the Department of Natural Resources in 1969. Minnesota, like many other states,

¹ Matthias Nordberf Orfield, *Federal Land Grants to the States with Special Reference to Minnesota*. (Minneapolis, University of Minnesota, 1915). p. 7-13.

² *Ibid.*, p. 37

³ Minnesota's Legislature, Office of the Legislative Auditor, *School Trust Land, A Program Evaluation Report* (St. Paul, 1998), p.3; Orfield. p. 42-44.

⁴ Act of Congress, March 3, 1849, 9 Stat. ch. 121, section 18.

⁵ Act of Congress, February 26, 1857, 11 Stat. ch. 60, section 5, first paragraph.

sought to translate trust land into cash for the schools; the first sale of trust land took place in 1862. By 1900, much of the best agricultural, timber, and mineral land – especially in the southern part of the state – had been sold to private interests, with mixed results for the schools.⁶

Over time, the trustees and others began to question whether this quick sale policy was in the best interests of the trust. Other options, including leasing the land for specific purposes, were considered. In the early 1900’s, the Minnesota Legislature modified its school trust management policy to place a number of restrictions on how the remaining school trust lands would be managed. These limitations shifted Minnesota’s policy from one of divesting school trust lands to one of retaining school trust lands for future economic potential in addition to reserving some land for public use and enjoyment.⁷ A non-exhaustive list of legislatively imposed limitations include the 1901 law requiring a reservation of mineral rights, the 1923 law restricting sale of land bordering public waters, and a 1935 law removing commercial peat deposits from sale. From the turn of the 20th century the school trust lands were managed with the idea of “selective retention” of lands that could best be managed by the state.⁸

Figure 2. School Trust Land by Grant Type

| Federal Grant | Original Grant Acres | Grant Acres Today ⁹ |
|------------------------------------|----------------------|--------------------------------|
| School and Indemnity School (1857) | 2,900,000 | 966,705 |
| Swamp (1860) | 4,706,503 | 1,540,347 |
| Internal Improvement (1866) | 500,000 | 6,510 |
| Total | 8,106,503 | 2,513,562 |

The federal land grants described above entrusted Minnesota with a total of 8.1 million acres. All of these federal grants are now considered school trust lands after constitutional amendments in 1914, 1938, 1974 and 1984. Approximately 2.3 million acres, roughly 92 percent, of Minnesota’s school trust lands are located in ten northern Minnesota counties – Aitkin, Beltrami, Cass, Cook, Hubbard, Itasca, Koochiching, Lake, Roseau and St. Louis.

The DNR has continuously managed the school trust lands since 1931. The DNR actively manages school trust land, including surface and mineral resources for revenue generation through the following general activities: mineral evaluation, leasing and extraction, forest products sales, sale of real property, real property easements, leasing and licenses, evaluation and leasing of surface soil resources, and leasing for recreational uses.

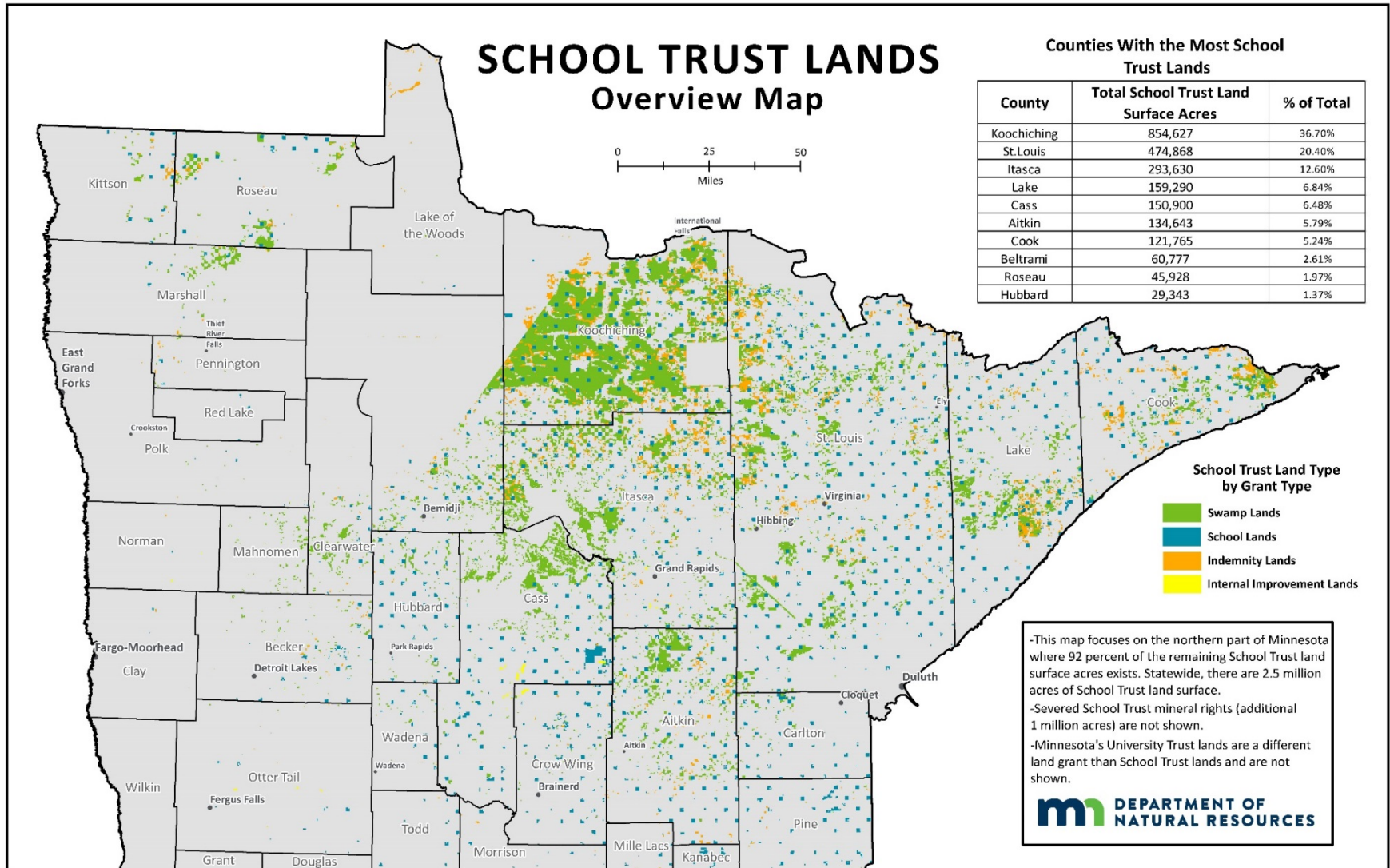
⁶ Minnesota Department of Natural Resources, School Trust Land Management Report, St. Paul, 1983. p. 10-12.

⁷ Minnesota Office of the Legislative Auditor, Evaluation of State Land Acquisition and Disposal, St. Paul, 1983. p. 12.

⁸ Ibid., p. 14-15.

⁹ Department of Natural Resources, Land Records System, acres reported as of October 16, 2019.

Figure 3. School Trust Lands Overview Map



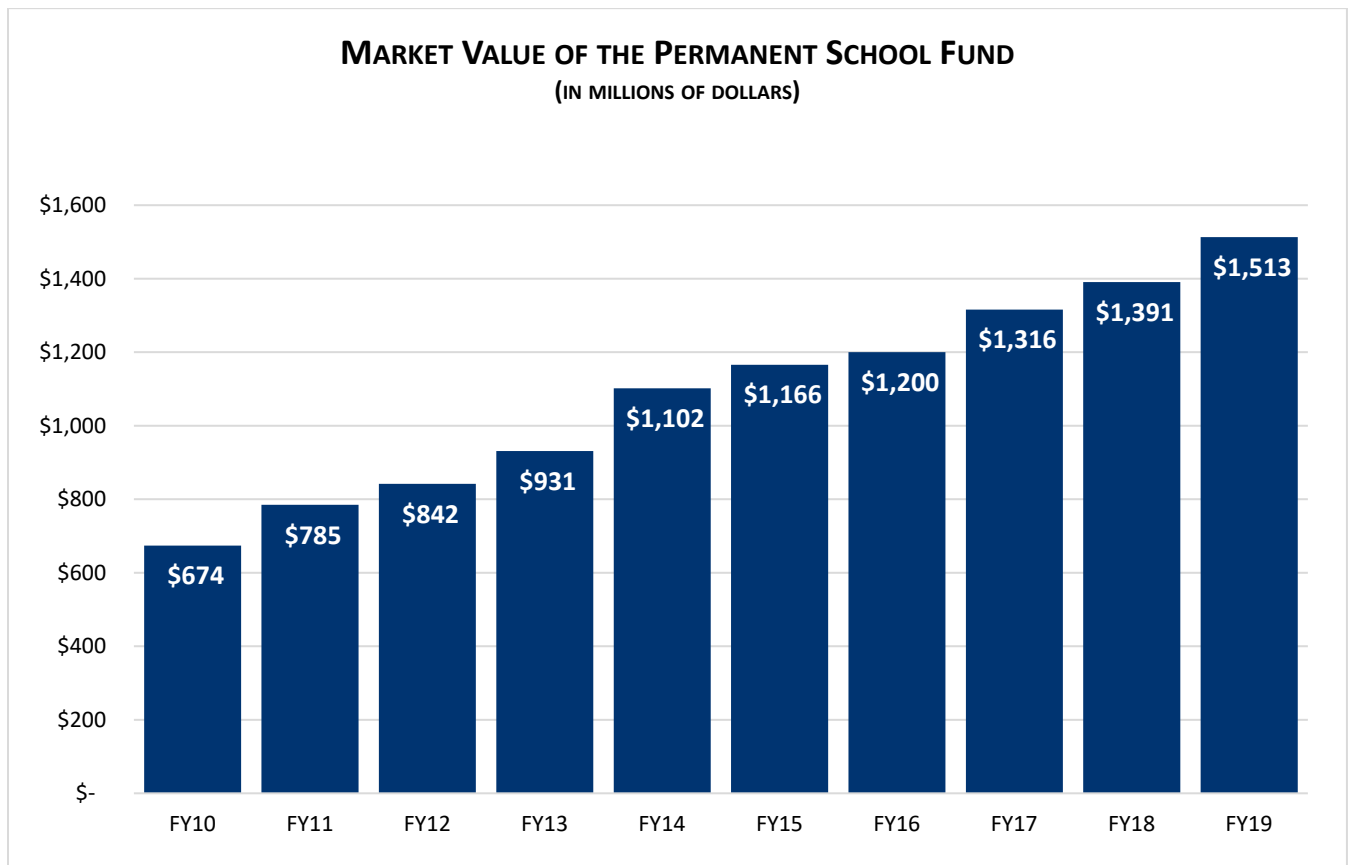
The Permanent School Fund

With the acceptance of the land grant by Minnesota, the Constitution created the Permanent School Fund (PSF) under Art. XI, sec. 8. As previously stated, revenue for the PSF is generated from many activities on school trust land, including sale of timber, gravel mining leases, peat leases, state forest campground fees, lakeshore leases, easements and utility licenses, the sale of school trust land, and several other types of surface use. In addition, revenue is generated from rentals and royalties from leasing school trust mineral assets, including iron ore and taconite, non-ferrous metallic mineral leases, and industrial mineral leases.

The State Board of Investment (SBI) manages funds for trusts and programs created by the Minnesota State Constitution and Legislature. The PSF is described by the SBI as a trust established for the benefit of Minnesota public schools. All equity, fixed income, and cash assets for this account are managed by the SBI or externally by investment management firms retained by the SBI.

The SBI completes quarterly and annual performance reporting. According to these reports, in June 2018, the market value of the PSF was approximately \$1.39 billion. By the end of FY19, the fund had grown to over \$1.51 billion. About \$33.0 million of spendable income was generated by the PSF in FY18 and distributed to the public schools. In FY19, fund payments to schools totaled about \$34.3 million.

Figure 4. Market Value of the Permanent School Fund



Trustees in Action

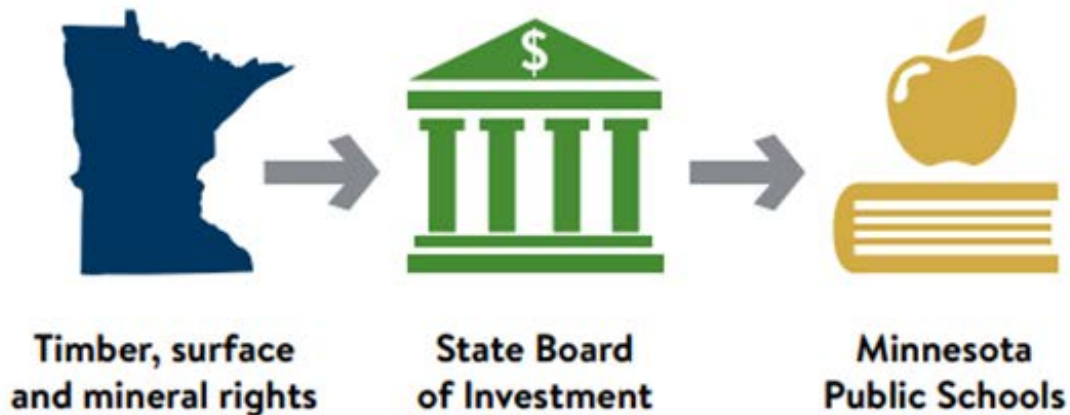
State of Minnesota

When the State of Minnesota accepted the terms and conditions of the federal land grants, it accepted the position of trustee for school trust lands and the PSF. This relationship also extends to the Minnesota Legislature and other State officials who make decisions affecting the PSF and school trust lands.

Department of Natural Resources

The DNR serves as trustee and retains management authority for the 2.5 million acres of school trust lands and an additional 1 million acres of severed mineral rights on behalf of Minnesota's public schools. The DNR works to manage the diverse portfolio of school trust lands by promoting revenue generation activities that are also protective of the natural resources that Minnesotans enjoy and value. As trustee, the DNR is uniquely positioned to provide experience and knowledge that optimizes the school trust land asset portfolio. DNR staff have wide-ranging technical expertise that includes mining engineering, economics, forestry, geology, ecology, biology, and real estate. Staff also work to provide robust land management strategies adaptable to economic and environmental conditions.

How DNR's Work Impacts Minnesota Public Schools



State Board of Investment

The SBI is the agency that manages the PSF and reports on performance. Income earned from school trust lands is added to the PSF principal, which is then invested by the SBI or external investment management firms retained by the SBI.

The PSF, as created by the Minnesota Constitution, is designated as a long-term source of revenue for public schools. In accordance with the Constitution, the principal of the PSF cannot be spent and instead must remain perpetual and inviolate. However, twice per year, the SBI distributes interest and dividends earned to the public schools. The earnings are transferred to the School Endowment Fund.¹⁰

Executive Council

The Executive Council is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor and Attorney General. The Governor is chair of the Executive Council. The Commissioner of Administration serves as a non-voting executive secretary. The Executive Council's role in trust land management includes approval of timber management leases exceeding 21 years, timber sale permits exceeding 12,000 cords, iron ore leases, nonferrous metallic mineral leases, certain long-term real property leases, and peat leases of 320 acres or more.¹¹ Another role of the Executive Council is to consider and propose to the Legislature terms of settlement for all claims and controversies between the State of Minnesota and the United States over lands granted to the state by the Congress. Other specified powers and duties are described in Minnesota Statutes, Chapter 9.

Land Exchange Board

The members of the Land Exchange Board are the Governor, the Attorney General and the State Auditor. All three members of the board must approve the exchange of public lands of the state for other public or private lands.¹²

Legislative Permanent School Fund Commission

The Minnesota Legislature established the 12 member Legislative Permanent School Fund Commission to advise the DNR and the School Trust Lands Director on the management of school trust assets. The commission is required to review statutes and recommend any changes necessary for "provident utilization" of school trust assets and to report annually to the Legislature with recommendations for management to secure long-term economic return for the Permanent School Fund.¹³

¹⁰ Minn. Stat., sec. 127A.32

¹¹ Minn. Stat., secs. 93.17, 93.25, 89.17, and 92.50

¹² Minn. Stat., secs. 94.341, 93.343, subd. 1

¹³ Minn. Stat. sec. 127A.30, subd. 2

Office of School Trust Lands

The Minnesota Legislature established the Office of School Trust Lands (OSTL) in 2012 in conjunction with the reorganization of the Legislative Permanent School Fund Commission. OSTL is led by the School Trust Lands Director and is an external agency to the DNR. The DNR and the OSTL have an agency-to-agency relationship. Minn. Stat., secs. 127A.351-353 outlines the purpose and authorities of the School Trust Lands Director. The Operating Agreement (2018) between DNR, OSTL and the Governor outlines formal consultation opportunities.

Department of Education

The Department of Education allocates the funds to all school districts across Minnesota based on “the number of pupils in average daily membership during the preceding year.”¹⁴

Minnesota Management and Budget

As part of the responsibilities of the commissioner of Minnesota Management and Budget (MMB), MMB produces an annual report that provides an overview of the PSF, reviews recent legislative changes and provides recent transfer totals from the fund to the Department of Education.

School Trust Policy

During the reporting period, the DNR made significant improvement to school trust land policy items through interdisciplinary leadership teams. The two most significant efforts are described below.

Permanent School Fund Compensation Authority

During the 2019 Legislative Session, the DNR was successful in restructuring the statutes related to compensating the PSF and providing additional authorities. This was needed because the previous compensation authority resided in two statutes that provided inconsistent direction regarding when, where and how the DNR should compensate the trust. In addition, the previous trust compensation options were limited to condemnation and exchange, which constrains the department’s flexibility to manage its fiduciary duty.

The 2019 legislative change clarified DNR’s compensation authority to the PSF, resolved inconsistencies in two statutes (Minn. Stat., sec. 92.121 and Minn. Stat., sec. 84.027, subd. 18(d)), and gave the DNR express authority to use lease payments as a compensation mechanism. Major elements in the changes to PSF compensation statutes achieved were clarity, flexibility, and consistency.

¹⁴ Minn. Stat., sec. 127A.33

The new section of law is Minn. Stat., sec. 92.122 and named Compensating Permanent School Fund. For more information, please visit the Office of the Revisor of Statutes website at the following link: www.revisor.mn.gov

Operational Order 121: Management of School Trust Lands

In April 2019, Commissioner Strommen signed Operational Order 121: Management of School Trust Lands. The DNR uses operational orders to define policies and procedures concerning internal management. Operational Order 121 is specifically used to clarify and direct staff-level management activities on school trust lands. The operational order does the following:

- It lays out the legal direction that guides our school trust land management;
- It describes what it means to act as a trustee on behalf of beneficiaries;
- It identifies how the department operationalizes “sound natural resource conservation and management principles”;
- It defines standard school trust land management practices;
- It clarifies department-level decision-making processes related to school trust lands including a dispute resolution process; and,
- It identifies how the department compensates the Permanent School Fund when the DNR makes management decisions that reduce or prohibit revenue to the trust.

This operational order signals a continued emphasis on school trust land management in which we have a clear understanding of our role as trustee, a transparent set of policies that guide our management of school trust lands, and identified processes, procedures, and tools for making management decisions in the best interests of the trust.

This operational order outlines the department’s defined strategy for what it means to implement “sound natural resource conservation and management principles... with other specific policy in law”. This strategy includes a three-pronged approach: we implement state and federal law, we use widely vetted best management practices on school trust lands and we develop and implement guidelines to take ecological benefits into consideration that are in the best interests of the trust.

Guidelines are an important element of the operational order. We will use guidelines as tools to provide field level operational guidance, identify approved best management practices, take ecological considerations that are in the best interest of the trust, and identify landscape level management approaches for school trust lands.

School Trust Management Activities

Mineral Management

DNR administers the entire mineral estate belonging to the State of Minnesota. This includes mineral rights of the following land types: school trust, university trust, consolidated conservation, Volstead, and tax forfeited lands. The DNR, acting in its trustee capacity, manages the school trust mineral estate for the benefit of

Minnesota students and the public education system. The DNR manages the mineral rights for iron ore and taconite, non-ferrous metallic minerals, dimension stone, industrial minerals, and stockpiled ore.

Mineral Management Highlights

Iron Ore and Taconite Leasing

Iron ore mining for Minnesota’s six iron ore pellet producing facilities was steady and at or near full capacity in FY18 and FY19. The most significant source of school trust iron ore mined in the biennium was at US Steel’s Minntac operation in Mountain Iron, Minnesota. Two other facilities, Northshore Mining and Hibbing Taconite also mined school trust iron ore. The remaining three operations, United Taconite, Minorca, and Keewatin Taconite, did not mine school trust crude ore in the biennium.

U.S. Steel Corporation’s Minntac operation in Mountain Iron, is the largest taconite pellet producer in the United States and paid over 90% of royalty payments for school trust minerals. School trust minerals remain a significant portion of Minntac’s current mine plans and potential future reserves. While Minntac currently has a mine life of 15 years, US Steel would like to expand their mining areas to extend their mine life for several decades. There are significant school trust minerals in these potential expansion areas.

Figure 5. Summary of Crude Ore Mined on School Trust Lands

| Mining Facilities | School Trust Crude Ore Mined (in Long Tons) | School Trust Crude Ore Mined (in Long Tons) | Total Biennium |
|-------------------|---------------------------------------------|---------------------------------------------|-------------------|
| | FY 2018 | FY 2019 | |
| Minntac | 13,173,784 | 20,662,115 | 33,835,899 |
| Northshore Mining | 0 | 891,155 | 891,155 |
| Hibbing Taconite | 163,763 | 0 | 163,763 |
| United Taconite | 0 | 0 | 0 |
| Minorca | 0 | 0 | 0 |
| Keewatin Taconite | 0 | 0 | 0 |
| Total | 13,337,547 | 21,5553,270 | 34,890,817 |

Total mineral receipts paid by these taconite iron ore pellet operations from school trust lands was \$37,507,541 for the FY18-19 biennium. This is up \$11,177,551, or 42%, from the \$26,329,990 received in the previous FY16-17 biennium. Eight percent of this 42% increase is due to additional tons of crude ore mined from school trust lands than the previous biennium. The remaining 34% of the 42% increase in revenue is due to higher royalty rates. The higher rates are attributable to favorable iron ore and steel pricing used to escalate the per ton payments.

In addition to the six taconite/iron ore pellet producers in Minnesota, the state also received \$321,689 in payments attributable to school trust stockpiled material from legacy natural iron ore operations that were reprocessed by Magnetation, LLC (Magnetation). Magnetation was an iron concentrate producer that mined under iron ore “scram” permits to recover iron units from existing iron-bearing stockpiles and tailings basins. Magnetation filed for chapter 11 bankruptcy in May 2015. This bankruptcy resulted in Magnetation’s assets being purchased by ERP Iron Ore, LLC (ERP). The DNR was able to negotiate payment for the past due royalties owed, including school trust royalties. That payment was received in FY18. ERP subsequently filed for Chapter 11 bankruptcy protection (debt restructuring), and later filed for Chapter 7 bankruptcy (asset liquidation). The DNR continues to follow the disposition of former Magnetation/ERP assets.

Industrial Minerals

Under Minnesota law, high-quality dimension stone is classified as an industrial mineral on state lands. Dimension stone is bedrock cut into blocks and slabs that is used for various building construction applications, to make monuments, and for decorative stone once polished. Over the past 30 years, DNR geologists spearheaded an inventory of classifying dimension stone potential on public lands. This inventory considers the suitability and durability of bedrock through a developed methodology consisting of geologic interpretation combined with on-site observations and sampling.

This effort led to the discovery and leasing of several dimension stone sites on state and federal lands in northern Minnesota, which are operated by Minnesota-based companies. On state trust land, Kasota Stone Fabricators Inc.’s (“Kasota Stone”) L-231 Quarry, is considered world-class due to its extremely limited joint spacing and uniformity in both color and texture. These qualities allow for the removal of large, consistent blocks. On federal lands, quarried stone, such as Mesabi Black or Lake Superior Green, are prominent building materials used in the construction of the 9/11 Memorial Plaza in New York, the National D-Day Memorial in Virginia, and the plaza at the Denver Union Station in Colorado. The production of these sites have broadened the market for Minnesota stone products.

As a critical function of school trust land management, DNR continues to capitalize the economic opportunities of dimension stone resources for the trust. In FY18 and FY19, DNR staff oversaw the administration of three industrial minerals leases on school trust land with Kasota Stone (Mankato, MN) and Cold Spring Granite (Cold Spring, MN). DNR staff monitor exploration activity, quarry activity, and production year to year to ensure compliance with lease terms and operation and reclamation plan conditions. In FY18 and FY19 the school trust received over \$71,000 in royalties from dimension stone quarries. For calendar year 2019, leasing conditions specify a guaranteed income of \$45,000 to the trust. There is a guaranteed minimum royalty rate schedule in place reaching \$185,000 guaranteed annual income to the trust by year 2024. A guaranteed royalty rate benefits the trust by providing long-term revenue streams from royalty payments while incentivizing the company to

expand operations over time. In addition to dimension stone income, Kasota Stone paid \$5,000 to the trust in FY19 for the removal of crushed stone. Also, DNR staff reviewed and approved an exploration plan submitted by Kasota Stone for prospect site L-159. The company plans to extract test blocks for the purposes of developing a mine plan for this site. A final mine plan will require DNR review from reclamation specialists, legal, and geotechnical staff.

In FY18 the DNR updated the publically available inventory of dimension stone potential focused on state trust lands. This information assists DNR in promoting school trust lands for economic development as well as informs land management decisions for the long-term benefit of the trust. Furthermore, identifying dimension stone potential increases the value of the school trust asset portfolio. DNR staff update the dimension stone inventory database with the newly collected data on a yearly basis. The data is publically accessible and can be found on the DNR's Geospatial Commons.

Non-Ferrous Metallic Minerals Leasing

Three processes are used to offer non-ferrous metallic mineral leases in Minnesota: public auction, negotiation, and preference rights application.¹⁵ Before the DNR can issue any non-ferrous metallic mineral lease, the proposed lease must be approved by the State Executive Council.¹⁶ During the past biennium, the DNR negotiated with one company to lease school trust mineral rights and did not hold a public lease auction for non-ferrous metallic mineral leases.

During FY18, the State Executive Council approved non-ferrous metallic minerals leases for 284 mining units covering 112,584 acres (of which 41,377 acres are school trust lands) that received qualifying bids. The approval was at its September 8, 2017 meeting. The public lease auction was held on June 9, 2017.

In FY19, the DNR sent a letter of request to interested parties asking for nominations for areas to be offered in the next metallic minerals lease sale. All requests submitted are classified under Minnesota law as confidential information for a period of three years from the sale date. The Department will consider all requests submitted in determining the timing and scope of its next lease sale.

Mineral Research

In 2019, DNR devised, contracted, and completed a project that obtained 16,376 feet (4,991 meters) of hyperspectral core imaging (HCI) data from thirty-two (32) archived cores from the Hibbing Drill Core Library. Core came from five Northern Minnesota focus areas that highlighted distinct mineral resources. HCI is a non-destructive technique that preserves high-value limited core material and identifies mineral abundances and maps mineral textures in detail. This effort gleans additional insight into the mineral resources, especially for the vast areas within the state covered by glacial sediment.

The mineral estate of school trust lands is approximately 3.5 million acres. Twenty of the scanned drill hole locations were either on or immediately adjacent to school trust mineral rights in areas with high potential for

¹⁵ Minn. R. Part 6125.0500 - .0610.

¹⁶ Minn. Stat., sec. 93.25, subd. 2.

gold (International Falls Area), copper, nickel, titanium, vanadium (Duluth Complex), and manganese (Cuyuna Range). A better understanding of the bedrock geology supports mineral exploration within the state. The information generated by private investment through mineral leasing helps refine our understanding of mineral potential and mineral occurrences on school trust lands. Hyperspectral imaging of iron formation core from the Mesabi Range may also identify opportunities for its use as a production tool by the taconite industry.

Both Drill Core Library bedrock core images and hyperspectral imaging data are publically accessible using an online application called the [Coreshed® Virtual Core Library](#). This easy access to mineral related data promotes mineral exploration and development opportunities on school trust mineral rights to a global audience. This project was funded by DNR and the Department of Iron Range Resources and Rehabilitation.

Figure 6. Summary of Mineral Research Focus Areas

| Project Focus Area | Cores | Land Tenure |
|-------------------------------------|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Biwabik Iron Formation/Mesabi Range | 6 | Three of six on school trust lands, results may support taconite industry production on school trust mineral rights. |
| International Falls/Greenstone Gold | 12 | Two cores on school trust lands, nine on private mineral rights that are adjacent to school trust lands. The other core on tax-forfeit land adjacent to school trust lands. |
| Duluth Complex Vanadium | 3 | All three cores on private mineral rights, but results apply to comparable titanium-vanadium deposits that are located on school trust lands. |
| Cuyuna Manganese | 5 | Four cores on severed minerals within a section that is adjacent to a section with school trust lands. |
| Animikie/Animikie SEDEX | 6 | One core on private mineral rights, one core on tax-forfeit mineral rights, one core on severed-mineral rights, three cores on consolidated conservation lands, and all six within one mile of school trust lands. |

Forest and Surface Management

The Minnesota Constitution establishes that school trust lands, along with other state-owned lands, can be set aside as a special class of productive forest lands and managed on forestry principles.¹⁷ The Sustainable Forest Resources Act (Minnesota Statutes, Chapter 89A) provides primary statutory direction for forest management conducted by the DNR. Accordingly, it is the state’s policy to “pursue the sustainable management, use, and

¹⁷ Minn. Const. Art. XI, sec. 11.

protection of the state's forest resources to achieve the state's economic, environmental, and social goals,” with sustainability defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

Using the state’s public land base, DNR comprehensively plans using a “multi-lands” approach. There are many different land types, within the state’s public land base, that allow DNR to manage comprehensively yet differently, to adhere to various obligations for particular land types. To provide maximum benefit to all state lands, the DNR has implemented a forest management approach that manages the state’s forestlands as one large group. This is beneficial to all land types as efficiencies continue to be realized. State-owned lands and resources are the foundation in which the DNR executes its mission for the benefit of all Minnesotans.

The overarching forest management strategy differs significantly from many private timber managers. DNR recognizes the symbiotic relationship between state-owned lands and Minnesota’s economy. While private timber companies may elect to hold their timber off the market when prices are low, the DNR approach is to continue to offer timber resources for two main reasons. First, continuing to offer timber resources is the primary means by which DNR can manage the health of our forested lands. Second, maintaining harvest levels helps ensure that a viable forest products industry will remain in Minnesota, thereby protecting the long-term value of our timber assets. These strategies make sense currently. If there is a change in the future economic condition, our strategy may change as well.

Forest and Surface Management Highlights

Timber Management

DNR timber management activities generate revenue across a number of fiscal years. The initial revenue is a 15 percent down payment, based on the appraised value of the permit made at the time of sale at a public auction. The remaining value of the timber permit is a required payment in the form of cash or documentary credit before the high bidder begins the harvest. The actual value of timber harvested is then invoiced on a quarterly basis until the harvesting is completed. Timber permits have between a three-year and five-year lifespan with ability for a one-year extension, if requested.¹⁸ Timber sale management is directed by statute (Chapter 90).

Figure 7. Summary of Cords Offered, Sold, and Scaled

| Fiscal Year | Land Status | New Offered ¹⁹ Volume (in Cords) | Sold Volume (in Cords) | Scaled ²⁰ Volume (in Cords) |
|-------------|---------------|---------------------------------------------|------------------------|----------------------------------------|
| FY 2018 | All DNR Admin | 926,516 | 827,372 | 763,588 |

¹⁸ Minn. Stat., sec. 90.193.

¹⁹ Includes new offered volume of cords and thousand board foot (MBF) units in cord equivalents. Timber offered under Good Neighbor Authority (GNA) are not included.

²⁰ Scaled volume is volume or weight measurement of harvested wood.

| Fiscal Year | Land Status | New Offered ¹⁹ Volume (in Cords) | Sold Volume (in Cords) | Scaled ²⁰ Volume (in Cords) |
|-------------|---------------|------------------------------------------------|---------------------------|-------------------------------------------|
| FY 2018 | School Trust | 504,383 | 455,690 | 415,873 |
| FY 2019 | All DNR Admin | 905,162 | 763,339 | 843,368 |
| FY 2019 | School Trust | 488,389 | 404,343 | 458,002 |

In FY18 (7/1/17 – 6/30/18), DNR offered 926,516 cord equivalents, sold 827,372 cord equivalents, and scaled (volume or weight measurement of harvested wood) 763,588 cord equivalents of all species, products, and units of measure across all DNR managed lands. DNR offered 504,383 cord equivalents, sold 455,690 cord equivalents, and scaled 415,873 cord equivalents of school trust timber resources in FY18.

In FY19 (7/1/18 – 6/30/19), DNR offered 905,162 cord equivalents, sold 763,339 cord equivalents, and scaled (volume or weight measurement of harvested wood) 843,368 cord equivalents of all species, products, and units of measure across all DNR managed lands. During FY19, DNR offered 488,389 cord equivalents, sold 404,434 cords equivalents, and scaled 458,002 cord equivalents of school trust timber resources.

This information is presented in the Division of Forestry’s “Minn. Stat., sec. 16A.125 Transfer Certification Report” and is available on the DNR website: www.dnr.state.mn.us/aboutdnr/school_lands/reports.html

Sustainable Timber Harvest Analysis (STHA) and Implementation

Good forest management includes periodic review of timber harvest levels and their impact to the greater forest ecosystem and economy. Governor Dayton directed the DNR to analyze the sustainability of harvesting one million cords of timber per year from DNR-managed forestlands. If the analysis determined that an annual harvest of one million cords was not sustainable, the governor asked DNR to identify an alternative sustainable harvest target. Mason, Bruce & Girard (MB&G), an independent contractor, conducted the analysis and a stakeholder advisory group provided input.

STHA was a transparent stakeholder process utilizing a 14-member stakeholder advisory panel. In addition, the OSTL was engaged as a direct advisor in the process. More than 140 individuals or groups provided comments that were shared with MB&G for consideration in their final report; the DNR also considered these comments in making the harvest level decision.

DNR strives to provide a stable, quality source of wood fiber to industry in a manner that is sustainable and conserves Minnesota's state forest resources into the future. A variety of environmental and economic factors were considered in the analysis. The final MB&G report provides important benchmarks for the amount of timber harvested from DNR-managed forest lands.

DNR thought it was important to conduct an independent third party analysis. The department contracted with MB&G to complete the modeling and analysis work for this project. In the summer of 2017, MB&G developed a "Phase I" progress report on the initial work for this project. That initial work was used as a launching point into more in-depth modeling and analysis that resulted in the "Phase 2 Sustainable Timber Harvest Analysis Draft Report." DNR created an introductory video to help explain how the analysis was conducted. After public comment and stakeholder group input, the MB&G final report was issued in February 2018.

After more than a year of rigorous scientific analysis, discussions with key partners, including conservation organizations and forest industry, and public input, DNR has set a new 10-year sustainable timber harvest at 870,000 cords offered for sale annually from DNR-managed forest lands. Under the sustainable timber harvest target of 870,000 cords annually, DNR-managed forest lands will continue to sustain Minnesota's rich biodiversity; provide healthy and thriving wildlife habitat; offer multiple recreation opportunities; support our state economy; contribute to clean air through carbon storage; and help keep our water clean.

Beyond the 870,000 cords, DNR has launched a five-year initiative to offer up to 30,000 additional cords of ash and tamarack annually in response to the threat posed by emerald ash borer and eastern larch beetle. Forest health professionals suspect that these two insects will decimate Minnesota's ash and tamarack forests. The DNR is accelerating its harvest to capture value before the trees are killed. The DNR will reforest the sites.

During FY20, DNR has identified candidate stands for harvest during the next 10 – years (FY19 – FY28) to schedule the acres needed to meet the goals identified in STHA. Management regimes (rotation ages, thinning intervals, and reserve percentages) were developed and applied to all lands within STHA. Different regimes that prioritize wildlife habitat were applied to lands within Wildlife Management Areas and other management opportunity areas identified during STHA. All other lands were managed using management regimes consistent with the rotation ages, thinning intervals and reserve percentages from past DNR planning efforts (forestry regimes). Forestry regimes were also applied to all school trust lands included in STHA regardless of where they are located. Both wildlife and forestry regimes are consistent with the multiple forest values, including wildlife habitat, rare species, water quality, and recreation but balance these values somewhat differently.

Local DNR land management staff from multiple disciplines reviewed the 10-year list of stands selected by the harvest scheduling model in their work areas and make adjustments to consider local knowledge of stand conditions and other factors. Once these adjustments were completed, the adjusted stand selection was analyzed to verify that the STHA goals could still be met with these adjustments included. Additional review – including public comment – will occur annually for the candidate stands identified for the upcoming annual timber sale.

All of the information found above and pertaining to the STHA is available on the DNR website: www.dnr.state.mn.us/forestry/harvest-analysis/index.html

Forest Investments

The 2018 Minnesota Legislature appropriated \$3 million in reforestation bonding resources. Reforestation funded with bonding appropriations is not currently charged to the school trust.

It is important to understand that bonding investments lower the near term costs to the school trust. They do not appear as expenses on the school trust forest certification reports. The result is reduced expenses and increased net revenue in years where increased bonding for reforestation is applied.

The additional \$500,000 road appropriation, established by the 2017 Minnesota Legislature, was continued by the 2019 Legislature. A portion of these costs are charged to the school trust in the cost certification. Due to unusually wet conditions, additional road maintenance has been required to keep many state forest roads operational. These investments to improve and maintain forest access will increase future gross revenue that will eventually offset the short-term costs.

Forestry investments are by nature long-term investments. Money spent on reforestation and stand improvement will not begin to return revenue for many years. Investments in roads also increase the value of school trust timber by allowing summer access in the future. Summer accessible timber usually holds a premium over winter accessible timber.

Real Estate Management

As part of its real estate management activities, the DNR enters into various real estate transactions on school trust lands. The DNR generates contract revenue from school trust lands through leases,²¹ easements,²² and licenses.²³ Additional revenue is generated through public auction land sales of school trust lands.²⁴ In addition, the DNR enters into land exchanges²⁵ that reposition the school trust lands to consolidate surface ownership, improve management, reduce management costs, and to improve opportunities for future revenue potential.

Revenues deposited in the Forest Suspense Account from forest management, subject to forestry cost certification per Minn. Stat., sec. 16A.125, are not limited to timber sales and related resource permits. Revenues are also generated from surface leasing transactions (aggregates, agriculture, hunting cabins, miscellaneous commercial and government, and lakeshore), permits (resource management access, and grant-in-aid), easements (primarily for right-of-way), and utility licenses (land and water crossings). Water crossing licenses,²⁶ wild rice farming leases, and state forest campground revenues are not subject to cost certification under Minn. Stat., sec. 16A.125 and are deposited in the state Forest Suspense Account in the PSF.

²¹ Minn. Stat., secs. 84.153 (residences); 89.17 (forest use); and 92.50 (miscellaneous)

²² Minn. Stat., sec. 84.63.

²³ Minn. Stat., sec. 84.415.

²⁴ Minn. Stat., sec. 92.12.

²⁵ Minn. Stat., sec. 94.343.

²⁶ Laws of Minnesota 2009, Chapter 37, Article 1, section 12 amending Minnesota Statutes, section 84.415 to require licenses and permits for the use of the beds of public waters be credited directly to the Permanent School Fund.

Real Estate Management Highlights

Strategic Land Asset Management (SLAM) Program

Minnesota's economy and quality of life are heavily dependent on our public lands. The DNR is entrusted to manage those lands to provide a variety of benefits to stakeholders, depending on their related constitutional and statutory mandates. Strategic Land Asset Management (SLAM) is the statewide framework used by DNR staff to continuously improve the multiple land portfolios managed by DNR. Through the department's Strategic Land Asset Management program, and consistent with obligations for particular land types, the department strives to meet three land asset management goals:

1. The state's public land asset base is the best possible reflection of Minnesota's conservation, recreation and economic values and needs;
2. The DNR has strong collaborative relationships, both internally, and externally that help us do our land asset management work; and,
3. The DNR uses efficient and cost-effective processes to manage our public land assets.

We achieve these goals by:

- Evaluating land decisions in the context of six criteria, three of which relate directly to improving the school trust land portfolio. They are 1) meet our fiduciary responsibilities on trust lands; 2) consolidate state land into larger, contiguous blocks; and 3) improve access to existing land holdings.
- Continuously improving the processes we use to complete transactions to ensure they are cost-effective, timely and meet customer needs.
- Working as a department to coordinate internal and external communication efforts about our program.
- Analyzing data to ensure we're meeting our land management goals, completing transactions in a timely way, and building strong, constructive relationships both internally and externally.

Information on Strategic Land Asset Management (SLAM) is available on the DNR website:

www.mndnr.gov/slam

Land Exchanges

During FY18-19 biennium, the DNR completed one land exchange involving school trust land. The exchange was completed under the expedited exchange law pursuant to Minn. Stat., sec. 94.3495 between state administered lands and governmental subdivisions of the state. This exchange was in partnership with Beltrami County. The project involved the exchange of 40 acres of state school trust land valued at \$34,100.00 and 40 acres of state tax forfeited land in Beltrami County. The tax forfeited land was valued at \$56,400.00. The land exchange cured an inadvertent trespass as well as provided the county a much better site to construct a solid waste facility.

DNR continues to work towards the completion of four school trust land exchanges in northern Minnesota. The largest SLAM exchange is located in southern St. Louis County and involves almost 15,000 acres of public land. Land Exchange Board approval will be sought in August 2020. Title issues on the tax forfeited lands have delayed this project.

For information on land exchanges related to school trust compensation, please refer to the [Compensation Status](#) section of this report.

Land Sales

Minn. Stat., sec. 92.12, subd. 4 requires that the DNR hold frequent sales of school trust lands and other state-owned lands. Revenue generated from the public auction²⁷ of school trust lands is not subject to forest cost certification under Minn. Stat., sec. 16A.125. In order to comply with the constitutional and statutory requirements to offer school trust land at public auction, the DNR incurs costs for professional services related to survey, appraisal, legal, advertising, and other fees on behalf of the trust prior to the land sale.²⁸

The minimum bid price for school trust lands offered at public auction includes the appraised value and most of the related sale expenses. The department is able to pass on some of the related costs to the high bidder if the land is purchased at auction. If no one purchases the land, the DNR must absorb those costs using other sources, usually general fund dollars. When a school trust parcel sells at public auction, pursuant to Minn. Stat., sec. 94.16, the DNR deposits the high bid amount won into the PSF. Given that school trust land can only be sold at public auction and not over the counter, DNR incurs the expenses for all unsold parcels and incurs additional costs if it reoffers unsold school trust land at subsequent public auctions.

In the FY18-19 biennium (7/1/17 – 6/30/19), five school trust parcels offered and sold at public sale resulting in revenue of \$34,000 to the trust. Three of the sold parcels resolved trespasses that were preventing sales of residential private property by the adjacent landowners. Those parcels were offered and sold at \$1,000 each. An isolated forty acre parcel in Beltrami County was sold at auction in 2018. An adjacent landowner was the only bidder. A lakeshore parcel on St. Mary's Lake in St. Louis County was offered in 2017 but did not receive any bids at auction.

DNR staff completed a continuous improvement project to streamline land sale processes and improve sale outcomes. The project included improved communication materials, amendments to legislation, a new sales calendar, and a new tracker for sales inquiries.

For information on land sales related to school trust compensation, please refer to the [Compensation Status](#) section of this report.

Condemnations

In the FY18-19 biennium (7/1/17 – 6/30/19), the DNR acquired one school trust parcel through the condemnation process, with an award amount of \$43,600. The parcel was added to the Agassiz Dunes SNA. This parcel contains approximately 31 acres of unbroken native prairie and 8 acres of former pasture that has reverted to native and introduced cover. The native prairie on this site is classified as UPn13b (Dry Barrens Oak

²⁷ Minn. Const. Art. XI, Sec. 8 requiring that school trust lands be sold only at public auction.

²⁸ Minn. Stat., sec. 94.16.

Savanna, northern). UPn13b is a plant community rated between imperiled and critically imperiled in Minnesota.

This site is in in close proximity (within 1 mile) to 947 acres of The Nature Conservancy's land, 482 acres of land owned by the City of Fertile named the Agassiz Environmental Learning Center and the Sand Hills Recreation Area. In addition, this site adjoins a pending Native Prairie Bank easement.

For information on condemnations related to school trust compensation, please refer to the [Compensation Status](#) section of this report.

Recreational Use

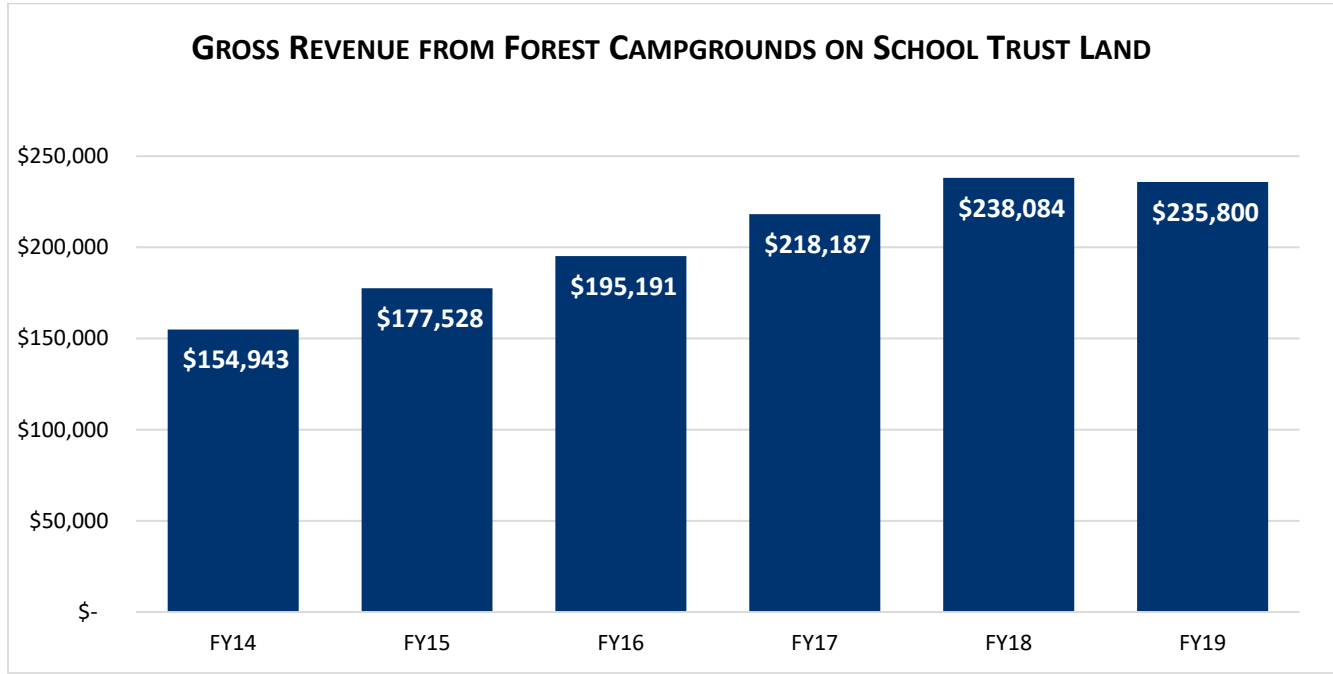
The DNR leases school trust land for recreational purposes. Examples of locations with recreational leases are Hill Annex State Park, Knife River Marina, North Country Hiking Trail, and Superior Hiking Trail. The revenue from these leases are considered qualifying revenue and subject to forest cost certification. However, the Forestry Division does not certify direct expense related to surface leasing for purposes not related to timber management. Therefore, the surface leasing revenues are deposited into the Forest Suspense Account, as a pass through account, then into the Permanent School Fund.

The DNR also manages forest campgrounds located on school trust lands, with a major difference being these revenues are not subject to forest cost certification and the Parks and Trails Division subsidizes all related maintenance expense. In FY18, total revenue generated from campground fees was \$238,084. In FY19, total revenue generated from campground fees was \$235,800.

The Division of Parks and Trails, interested groups, and stakeholders have communicated interest in making investments to certain campgrounds on school trust land to improve services and provide higher level amenities, especially related to motorized recreation. DNR would like to be responsive to user groups while

increasing revenues to the school trust. To do this, a solution is needed to fund operating expenses. The department will need legislative authority to recover costs related to operations and maintenance.

Figure 8. Gross Revenues from Forest Campgrounds on School Trust Lands



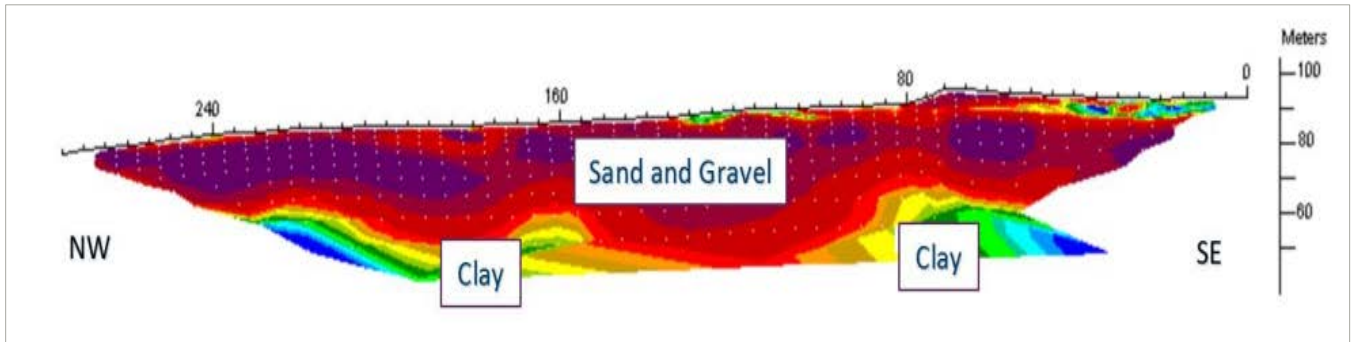
Construction Aggregate Resources

Surface leasing of construction aggregate resources (sand, gravel, crushed stone, and landscape rock) is a relatively profitable way to generate revenue for Minnesota’s public schools. The DNR administers earth materials leases to private companies and local governments for the commercial production of aggregate resources, and collects royalty payments (based on DNR standards) for every unit of material removed. During the FY18-19 biennium, earth materials leases on school trust lands generated \$746,883 in royalties (~25% increase from last biennium). Gross aggregate revenue was deposited in the Forest Suspense Account and was subject to cost certification pursuant to Minn. Stat., sec. 16A.125.

In FY19, DNR finished a parcel-by-parcel assessment using geologic expertise and computer analysis to inventory aggregate resource potential on school trust land. Overall, 1,066 parcels (2% of school trust lands) contain known occurrences of aggregate and/or available data demonstrates a strong probability that significant aggregate deposits occur. Conversely, the geologic conditions within 44,458 parcels (69% of school trust lands) suggest a low probability of significant aggregate deposits. For the remainder of the parcels (29% of school trust lands) there is insufficient data to assign, or eliminate, the likelihood of significant aggregate resources to an acceptable level of certainty. Acquisition of new data or field verification is needed to determine aggregate potential where uncertainty is greatest. Field investigations are the preferred method for verifying aggregate potential and are most cost-effective when considered on a case-by-case basis.

Using aggregate inventory findings, the DNR is working to systematically identify and market parcels with the highest aggregate potential and commercial viability as lease sites. In FY19, the DNR purchased field equipment (SuperSting Electrical Imaging Equipment pictured below) using a 75/25 split of DNR school trust appropriation and general fund dollars respectively. SuperSting field equipment will help DNR map school trust aggregate deposits and will provide direct benefit to marketing projects, utilization of resources at lease sites, and maximizing asset productivity.

Figure 9. Aggregate Deposit Profile Using Electrical Imaging Equipment



Caption: Colored profile showing geologic layers below a school trust parcel in Clay County. Purple colors indicate where aggregate deposits are concentrated (up to 130 feet below ground surface). Olive green and yellow colors indicate layers that are not good aggregate. Electrical imaging equipment improves field investigations by reducing the need for traditional drilling which is more costly and disruptive.

The DNR advertises school trust parcels with the highest aggregate potential on the “School Trust Aggregate Finder” web map application. This tool connects public transportation administrators and private companies with aggregate prospect information and improves public recognition of school trust lease opportunities.

In unison with lease site promotion, the DNR embarked on a proactive continuous improvement project targeting earth materials lease processes, customer satisfaction, and lease compliance. Optimizing business functions allows DNR to facilitate a growing number of active leases stemming from increased promotion efforts. The DNR’s earth materials lease continuous improvement project is ongoing.

Information on school trust aggregate and the “School Trust Aggregate Finder” is available on DNR’s website: www.mndnr.gov

School Trust Management Revenue

DNR management of school trust land generates revenue from three major categories – mineral lease rental and royalty payments, forest management activities, and real estate transactions such as sales. The majority of Minnesota’s school trust revenues ebb and flow with global industry trends and classic economic theory of supply and demand.

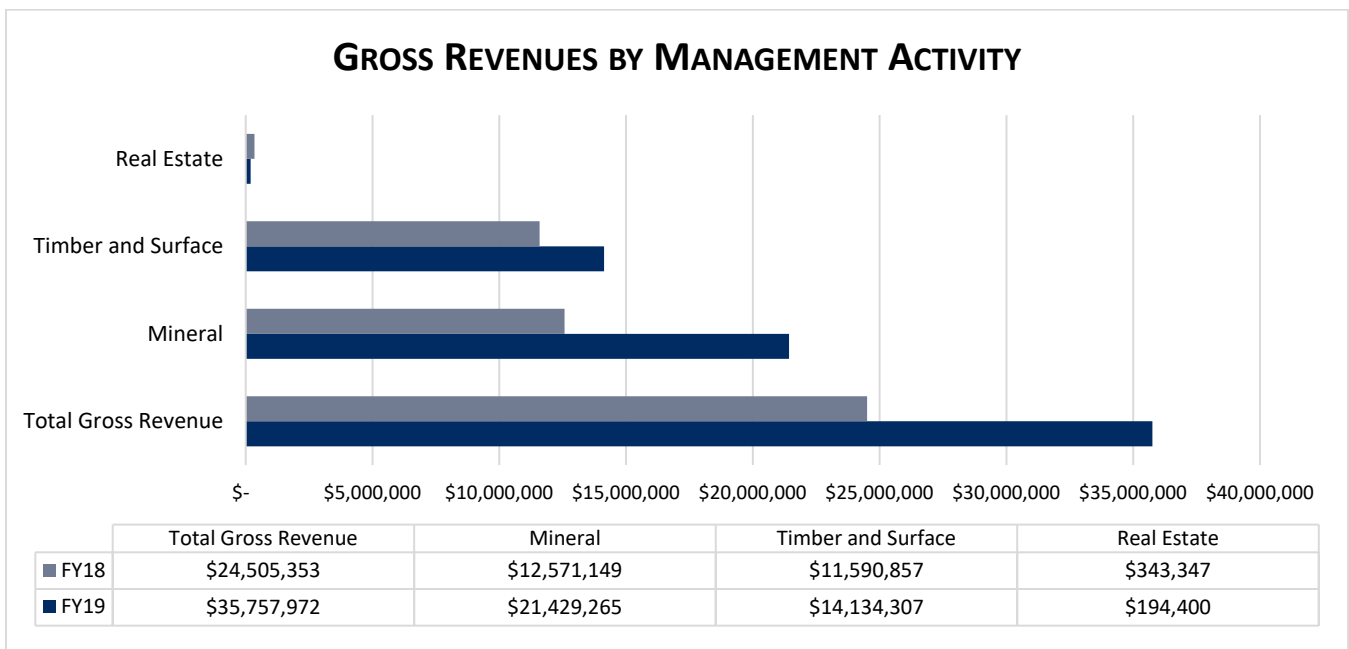
Gross Revenues

During the reporting biennium, school trust management activities generated gross revenue (income and receipts) of \$60.26 million from school trust lands and resources. This is a 3.9% increase over the previous reporting period’s gross revenue generation of \$57.98 million.

In FY18 (7/1/17 – 6/30/18), school trust management activities generated gross revenues of \$24.50 million from school trust resources such as minerals, forest products, and land sales. Mineral lease rental and royalty payments accounted for \$12.57 million. Forest products and surface leasing contributed \$11.59 million and real estate revenues, such as water crossing licenses and school trust land sales, supplied an additional \$343,347.

In FY19 (7/1/18 – 6/30/19), school trust management activities generated gross revenues of \$35.75 million from school trust resources such as minerals, forest products, and land sales. Mineral lease rental and royalty payments accounted for roughly \$21.43 million. Forest products contributed \$14.13 million and real estate revenues, such as water crossing licenses and school trust land sales, supplied an additional \$194,400.

Figure 10. Gross Revenues by Management Activity



School Trust Management Cost

DNR generates revenue on school trust lands from school trust assets (i.e., resources) and transfers revenues and receipts, less expenses allowed under state law, from these management activities into the PSF. The management expenses allowed under state law are described below for minerals management, forest and

surface management. Real estate management costs are not allowed to be certified against those proceeds under state law. The general fund provides the majority of subsidy that directly benefits the school trust.

Mineral Management Costs

In 2005, legislative changes permitted the DNR to receive a portion of gross mineral revenues to fund mineral management activities. Pursuant to Minn. Stat., sec. 93.22, twenty percent of mineral receipts are deposited into the Minerals Management Account (MMA) for the administration and management of the entire 12 million acre mineral estate owned by the State of Minnesota, including the 3.5 million acres of school trust mineral rights. The remaining eighty percent of the school trust revenue from mineral leasing is distributed to the PSF, from which the net interest and dividends are distributed to the school districts throughout the state.

Minerals Management Account Background

The DNR manages the entire mineral estate retained by the State of Minnesota. Minnesota's mineral portfolio includes mineral rights where the state has control of the surface. It also includes mineral rights where another party controls the surface (i.e. severed mineral rights). The DNR manages the mineral estate of multiple land classes (portfolios) such as consolidated conservation lands, Volstead lands, county tax forfeit lands, school trust lands, and university trust lands.

The Minerals Management Account (MMA) was designed to create a \$3 million principal that could be drawn upon in the event that future income generation drops. At the end of each quarter, the amount exceeding \$3 million is distributed to the Permanent School Fund, Permanent University Fund and local taxing districts in the same proportion as the total lease revenue received in the previous biennium from these land ownership classifications. Minn. Stat., sec. 93.2236 states that the DNR can utilize the MMA funds, once appropriated by the legislature, for "mineral resource management and projects to enhance future mineral income and promote new mineral resource opportunities."

Each year, the legislature appropriates money to DNR from the MMA for the administration and management of the state's mineral resources. DNR does not certify its mineral management costs against the gross revenues. The legislature appropriates the funding from the Minerals Management Account for the DNR operating costs associated with promoting and managing the state's entire 12 million acre mineral portfolio.

Minerals Management Account Appropriations

The FY18 and FY19 appropriations to the DNR from the Minerals Management Account are in Laws of Minnesota 2017, Chapter 93, Article 1, Section 3, subdivision 2. The figure below describes the appropriations for FY18 and FY19.

Figure 11. Minerals Management Account Appropriations

| FY 2018 MMA Appropriation | FY 2019 MMA Appropriation | Comments |
|---------------------------|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| \$200,000 | \$200,000 | For environmental research relating to mine permitting. |
| \$2,815,000 | \$2,815,000 | For use as provided in Minn. Stat., sec. 93.2236, for mineral resource management, projects to enhance future mineral income, and projects to promote new mineral resource opportunities. |

Timber and Surface Management Costs

Forestry Certification Process

Minn. Stat., sec. 16A.125 provides which surface management costs can be certified against revenues from school trust lands, and how the certified costs and net revenues from the school trust lands are distributed. The allowable expenses are categorized as improvement, administration, management of forestlands, and for the construction and maintenance of forest roads. Only those charges that were paid from the state’s general fund and forest management investment accounts appropriated for the Division of Forestry are included. Costs charged to other state and federal funds are excluded from the cost certification process.

The Minnesota Constitution, article XI (appropriations and finances), section 11 (timber lands set apart as state forests; disposition of revenue) reads:

“School and other public lands of the state better adapted for production of timber than for agriculture may be set apart as state school forests, or other state forests as the legislature may provide. The legislature may also provide for their management on forestry principles. The net revenue therefrom shall be used for the purposes for which the lands were granted to the state.”

The DNR identifies hours of paid staff time and dollars expended using a set of cost codes for forestry activities. These cost codes track charges based on the type of activity (e.g., forest improvements, forest inventory, timber sales, administration, etc.), and on the land type on which the activity took place.

More information is presented in the Division of Forestry’s annual “Minn. Stat. 16A.125 Transfer Certification Report” and is available on the DNR website: www.dnr.state.mn.us/aboutdnr/school_lands/reports.html

Real Estate Management Costs

Forest Suspense Account Appropriations

For the FY18-19 biennium, the legislature appropriated \$206,000 the first year and \$212,000 the second year (to the Lands and Minerals Division) from the Forest Suspense Account in the Permanent School Fund to secure maximum long-term economic return from the school trust lands consistent with fiduciary responsibilities and sound natural resources conservation and management principles.²⁹ These dollars are used for real estate management activities such as land sales, land exchanges, resolution of trespass or encroachment, accelerating commercial leasing, and enhancing aggregate leasing.

School Trust Operating Subsidy

During the FY12-13 biennium, the DNR completed a full cost accounting analysis of DNR management activities. The objective was to identify all appropriations utilized by DNR to fund trust management activities. The DNR estimated that – at that time – the annual subsidy total was nearly \$7 million for DNR management activities performed to generate an economic return and for non-reimbursable expenses. Other management activity subsidies are in the areas of forest management, mineral management, and real estate management. A conservative estimate of the current subsidy for management costs is easily over \$10 million for the FY18-19 biennium.

The primary non-reimbursable expense of school trust land management is the annual payments in lieu of taxes (PILT) payment made to counties. The FY18-19 general fund subsidy for PILT payments was approximately \$10 million.

Compensation Status

This section is intended to meet the legal requirement for reporting pursuant to Minn. Stat., sec. 84.027, subd. 18(c), which states that Permanent School Fund reports issued after the 2013 inventory report must include a status report of the commissioner's progress in maximizing the long-term economic return on lands identified in that report. The lands identified in the 2013 inventory report and their statuses are listed and summarized in this section of the report. The summaries are in three categories: natural resource (Figure 12), recreational (Figure 13), and statutory (Figure 14).

²⁹ Laws of Minnesota 2017, Regular Session, Chapter 93, Article 1, section 3, subd. 2

Figure 12. Summary of Natural Resource Policy and Designation Impacts and Status

| Natural Resource Policy or Designation | Acres | 2013 Status | 2019 Status |
|----------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Candidate Research Natural Areas | 10,220 acres | Recommendation to modify management. | Management has been modified. Through the STHA, these sites were evaluated and included in the productive timber pool, and if identified by the STHA model, will be evaluated for harvest or for potential stand swapping of like stands. |
| Natural Area Registry Sites | 769 acres (7 sites) | Recommendation to purchase or exchange with a note that the current agreements are voluntary and non-binding. | Management has been modified. Most registry sites are not located on productive timberlands. Through the STHA, these sites were evaluated and included in the productive timber pool, and if identified by the STHA model, will be evaluated for harvest or for potential stand swapping of like stands. |
| Native Prairie Conservation Sites | 7,000 acres | It is unknown whether the Minnesota Prairie Conservation Plan will prohibit revenue generation. | There is no formal designation or informal management of native prairie sites on school trust lands. To date, the Minnesota Prairie Conservation Plan does not prohibit or restrict revenue generation. Any future activity will follow the DNR’s internal policy for management of school trust lands (Operational Order 121). |
| Old Growth Stands | 17,800 acres | The objective of the designation is natural resource protection. This designation prohibits revenue generation via policy. | DNR plans to compensate via exchange or condemnation under 2016 Session Laws, Chap. 189, Art. 3, sec. 43. There have been multiple efforts to compensate the PSF for Old Growth Stand designation, which the school trust maintains to meet forest certification requirements. To date, no dollars have been appropriated to fund an exchange or condemnation under the 2016 Session Law. |

Figure 13. Summary of Recreational Policy and Designation Impacts and Status

| Recreational Policy or Designation | Acres or Sites | 2013 Status | 2019 Status |
|------------------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Day-use Areas | 36 acres | Day use areas are open for public recreation and provide boating access, swimming and other forms of outdoor recreation. No specific recommendation is provided. | Status as a day-use area does not limit the potential for future revenue generating activities. As a result, it does not restrict or prohibit revenue generation. |
| State Parks | 640 acres | School trust lands within the state park system have largely been exchanged out of state park boundaries. Where they are located within state park boundaries, they operate under agreements that permit future revenue generation, or provide compensation to the trust via lease payment. No further action is needed. | DNR continues to manage as described in 2013. |
| State Recreation Areas | 40 acres | Where school trust lands are located within state recreation areas (Cuyuna Country State Recreation Area), the establishing legislation permits future revenue generation. No further action is needed. | DNR continues to manage as described in 2013. |
| Public Water Access (PWA) Sites | 1,100 acres or 177 sites | The objective of the designation is to provide for public recreation. This designation prohibits other forms of revenue generation. The designation would need to be vacated to allow for multiple use. In addition, revenues are not collected on behalf of the PSF. | DNR plans to compensate via exchange or condemnation under 2016 Session Laws, Chap. 189, Art. 3, sec. 43. See pages 35 – 38 for a more detailed description of progress. |

Figure 14. Summary of Statutory Prohibitions and Limitations Impacts and Status

| Statutory Prohibitions and Limitations | Acres | 2013 Status | 2019 Status |
|----------------------------------------|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Boundary Waters Canoe Area Wilderness | 83,000 | The DNR and U.S. Forest Service Superior National Forest are actively engaged in a land exchange project that would replace up to 31,000 acres school trust lands in the BWCAW with equivalently valued land currently in federal ownership that could produce future revenue for the trust. The DNR and USFS are also looking at sales and additional exchanges to address the approximately 53,000 trust acres remaining in the BWCAW. | See pages 40 – 43 for a detailed project status report. |
| Peatland Protection Act | 51,000 | The Peatland Protection Act restricts management of the surface and mineral estates for revenue generating purposes. Minn. Stat., sec. 84.035, subd. 9 directs that the commissioner shall acquire the surface interests, including the peat resources, in these school trust lands by exchange or eminent domain. To-date, funding has not been provided for such acquisition. | Funding has not yet been provided for such acquisition. |

Remaining Uncompensated Designation or Policy Provision Restrictions

Minn. Stat., sec. 84.027, subd. 18(b) requires that, “any uncompensated designation or policy provision restrictions on the long-term economic return on school trust lands remaining after July 1, 2018, must be compiled and submitted to the Legislative Permanent School Fund Commission for review.”

A list of these uncompensated designation or policy provision restrictions on the long-term economic return on school trust lands that remain after July 1, 2018 is included in Figure 15.

Figure 15. Summary of Remaining Uncompensated Designation or Policy Restrictions

| Policy and Designation | Acres | Remaining Compensation Balance |
|---------------------------------|-------|--------------------------------|
| Public Water Access (PWA) Sites | 1,100 | \$13,500,000 |

| Policy and Designation | Acres | Remaining Compensation Balance |
|-------------------------|---------------|----------------------------------------------------------------------|
| | | Note: See pages 35 – 38 for a more detailed description of progress. |
| Old Growth Stands | 17,800 | \$19,900,000 |
| Peatland Protection Act | 51,000 | \$25,500,000 |
| Total | 69,400 | \$58,900,000 |

Progress on Compensation: Public Water Access Sites

In 2015 Session Law, amended in 2016³⁰, the Legislature required DNR to sell or exchange at least \$3 million worth of state-owned, non-trust lands by June 30, 2017. The DNR has conducted land sales under the 2015 Session Law and the amendment in 2016. Please see the summary of non-trust land sales in Figure 16, for state-owned, non-trust parcels outside units of the Outdoor Recreation System that have been sold in response to this legislative directive.

Figure 16. Summary of Non-trust Land Sales under the 2015 and 2016 Session Laws

| Fiscal Year | Sale Price | Estimated Proceeds (less allowed costs) | Description | County | Acres |
|-------------|------------|-----------------------------------------|--------------------------|-----------|-------|
| FY 2016 | \$1,049 | \$1,000 | Todd County Oxbow | Todd | 0.36 |
| FY 2016 | \$19,540 | \$18,700 | Former Hudson Pit | Douglas | 5.00 |
| FY 2016 | \$61,360 | \$39,700 | Lake Alice Township | Hubbard | 30.30 |
| FY 2017 | \$542,150 | \$522,800 | Hastings North Forty | Dakota | 40.23 |
| FY 2018 | \$13,000 | \$10,500 | Ortonville Fish Hatchery | Big Stone | 5.25 |

³⁰ Laws of Minnesota 2016, Chapter 189, Article 3, section 43 that requires the DNR to sell or exchange at least \$3 million worth of state-owned, non-trust parcels located outside units of the Outdoor Recreation System and use the proceeds to compensate the Permanent School Fund.

| Fiscal Year | Sale Price | Estimated Proceeds (less allowed costs) | Description | County | Acres |
|-------------------|------------|--------------------------------------------|--------------------|-------------|---------------|
| FY 2018 | \$16,000 | \$14,800 | Read's Landing | Wabasha | 4.30 |
| FY 2018 | \$40,000 | \$27,000 | Koochiching Parcel | Koochiching | 30.00 |
| FY 2019 | \$19,300 | \$16,200 | Weissel Parcel | Pine | 11.60 |
| FY 2020 | \$33,400 | \$28,800 | Itasca Hwy 48 | Itasca | 36.83 |
| FY 2020 | \$10,500 | \$7,300 | Tamarac Forestry | Becker | 5.00 |
| Est. Total | | \$686,800 | | | 168.87 |

Under the session law, no sale proceeds have been used to extinguish the school trust interest on school trust lands where PWA sites are located. The proceeds from land sales thus far are approximately \$687,000 and remain available to extinguish school trust interests. The plan is to use the proceeds from completed land sales to buy out (i.e. condemn) the trust interest in certain PWA sites as funding and staff capacity allow. At this time, the department is using its available funding and staff resources to first complete the land exchanges in process for the PWA sites located on school trust land (see Figure 17).

The 2015 Session Law, amended in 2016, provided the authority to conduct land exchanges to compensate the Permanent School Fund. DNR is in the process of conducting land exchanges under the 2016 Session Law. More specifically, the DNR has evaluated state-owned, non-trust lands located outside of units of the Outdoor Recreation System and identified candidate parcels to exchange for public water access (PWA) sites located on school trust lands, as required under the amended 2016 Session Law. Thus far, DNR has identified three parcels suitable for exchange. Figure 17 provides details on these three parcels, the candidate PWA sites, and status of the exchange work.

Once these exchanges are complete, DNR will seek to identify additional state-owned parcels located outside of units of the Outdoor Recreation System to exchange for additional PWA sites located on school trust land.

Figure 17. Identified State-owned Parcels to Exchange for PWA Sites on School Trust Lands

| Parcel | County | Est. Value | Acres and Description | Status |
|-----------|--------|-----------------------|-----------------------------------------|------------------------------------------------------------------------------------------|
| Parcel #1 | Dakota | Expected by fall 2020 | 40 acres with potential for development | In process. Up to seven PWAs, or up to the acreage that equalizes the value of the lands |

| Parcel | County | Est. Value | Acres and Description | Status |
|-----------|------------|-----------------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | <p>being exchanged, will be included. PWAs currently anticipated to be included are:</p> <ul style="list-style-type: none"> • Mille Lacs Lake, Cedar Creek PWA • Kabetogama Lake NE PWA • Pokegama Lake #2 PWA • Vermilion Lake, Wakemup Bay PWA • Lake Superior, Horseshoe Bay PWA • Mantrap Lake S PWA • Gull Lake PWA <p>Projected completion of exchange: Fall 2021</p> |
| Parcel #2 | Mille Lacs | Not yet started | 40 acres surrounded by school trust land | <p>This parcel will be exchanged with any of the seven candidate PWAs that were not included in the first exchange (see row above), plus up to six additional PWAs identified by DNR for priority acquisition, or up to the acreage that equalizes the value of the lands being exchanged.</p> <p>Projected initiation of exchange: Upon completion of the exchange of PWA sites for Parcel #1.</p> |
| Parcel #3 | Itasca | Not yet started | 28 acres adjacent to school trust land | <p>This parcel will be exchanged with any candidate PWAs that were not included in the second exchange, plus up to six additional PWAs identified by DNR for priority acquisition, or up to the acreage that equalizes the value of the lands being exchanged.</p> <p>Projected initiation of exchange: Upon completion of the exchange of PWA sites for Parcel #2.</p> |

Though an exchange is in process, no land exchanges related to this legislation have yet been completed to compensate the Permanent School Fund. Therefore, there has not been any compensation to the Permanent School Fund thus far. The estimated market value of lands involved in these exchanges will be available upon completion of the appraisal process. The DNR expects valuation information for Parcel #1 in the fall of 2020, with the land exchange projects involving Parcels #2 and #3 to follow.

Three factors have led this project to exceed the deadline in the 2016 Session Law. First, on the ground assessment and survey work, during field season, was needed to identify the boundaries of the PWA sites to be exchanged. This work informed the development of legal descriptions, survey exhibits, and scope of appraisal contracts. Second, appraisals related to exchanges such as these typically take six to twelve months to scope, bid, and complete due to the fact that they include multiple parcels to inspect, are located in counties across the state, include varying land uses and require identification of real estate remainder damages. Third, funding for costs related to these land exchanges has not been appropriated or specifically identified. As a result, the department makes progress on each step of these land exchange projects as resources are available.

Progress on Compensation: Old Growth Stands

Under the session law, no sale proceeds have been used to extinguish the school trust interest on school trust lands with designated old growth stands. DNR efforts are focused first on identifying and addressing PWA sites located on school trust land. When this effort is complete, we will address old growth located on school trust land. To date, no dollars have been appropriated to fund an exchange or condemnation under the 2016 Session Law.

It is important to note, the school trust currently maintains designated old growth stands to meet forest certification requirements and maintain dual certification. The legislative requirement to compensate (via condemnation or land exchange) may need to be revisited given the requirement by certification bodies to maintain and protect Type 1 and Type 2 old growth stands.

Progress on Compensation: The Peatland Protection Act

The Peatland Protection Act restricts management of the surface and mineral estates for revenue generating purposes on approximately 51,000 acres. Minn. Stat., sec. 84.035, subd. 9 directs that the commissioner shall acquire the surface interests, including the peat resources, in these school trust lands by exchange or eminent domain. To-date, no dollars have been appropriated to fund such acquisition.

Proposals for Compensation

DNR Proposals

Since 2011, the DNR has continued to seek appropriations from a variety of sources to compensate the Permanent School Fund consistent with Minnesota law. The Department's primary means of seeking those appropriations is through the executive branch operating and capital budget processes. The department included general fund budget and bonding proposals to compensate the trust as part of its larger budget request submitted through the executive branch budget process. In addition, the DNR sought appropriations from the Environment and Natural Resource Trust Fund (ENRTF). Figure 18 provides a summary of proposals for school trust compensation from general funds, non-general funds and state bond funds.

Figure 18. Summary of Funding Proposals for Compensation

| Session | Amount Requested | Amount Provided | Funding Source | Notes |
|---------|------------------|-----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2018 | \$80M | \$0 | Bonding | To start the compensation plan and buyout of certain school trust lands |
| 2017 | \$13M | \$0 | General Fund | To start the buyout of Peatland Scientific and Natural Areas |
| 2016 | \$20M | \$0 | Bonding | To start the compensation plan and buyout of certain school trust lands |
| 2015 | \$84M | \$0 | General Fund | To start the compensation plan and buyout all school trust lands with policies or designations that prohibit long-term economic return |
| 2015 | \$2M | \$0 | ENRTF | To start the buyout of old growth forest complexes |
| 2014 | \$20M | \$0 | Bonding | To start the compensation plan and buyout of certain school trust lands |
| 2014 | \$2.1M | \$0 | ENRTF | Buyout of old growth forest complexes |
| 2013 | \$5M | \$0 | ENRTF | Buyout of Peatland Scientific and Natural Areas |
| 2012 | \$5M | \$0 | Bonding | To start the compensation plan and buyout of certain school trust lands |

Legislative Proposals

Budget proposals are also introduced in the Legislature by individual House and Senate members. Since 2013, a variety of House and Senate bills have been introduced to compensate the Permanent School Fund. However, these proposals have not been enacted into law. Figure 19 provides a summary of those legislative proposals introduced to address school trust compensation.

Figure 19. Summary of Legislative Proposals for Compensation

| Session | Amount Requested | Amount Provided | Funding Source | Notes |
|---------|----------------------------------------------------------------|-----------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019 | \$100M | \$0 | General Fund: Forecast of Budget Surplus | HF 152 / SF 617 Permanent school fund compensation for land based on general fund forecast funding provided, and money appropriated |
| 2017 | Funds sufficient to meet requirements outlined in the bill | \$0 | General Fund: Forecast of Budget Surplus | HF 2499 / SF 2258 Money appropriated based on general fund forecast to compensate permanent school fund for land |
| 2015 | Funds sufficient to meet the requirements outlined in the bill | \$0 | General Fund: Unclaimed Lottery | HF 887 / SF 1034 Unclaimed lottery prize money dedicated for acquisition of school trust lands, and money appropriated |
| 2014 | Funds sufficient to meet the requirements outlined in the bill | \$0 | General Fund: Unclaimed Lottery | HF 2439 / SF 2017 Unclaimed lottery prize money dedicated for acquisition of school trust lands, condemnation of school trust lands to be acquired provided, and money appropriated |

Boundary Waters Project

Boundary Water and Canoe Area Wilderness History

Congress passed the Wilderness Act in 1964 including the Boundary Water and Canoe Area Wilderness (BWCAW) as part of the National Wilderness Preservation System. The Minnesota Legislature passed legislation that mirrored federal wilderness area restrictions related to resource management. In 1976, the Legislature enacted law that prohibited peat harvesting and mining of state minerals³¹ within the BWCAW except in the

³¹ Minn. Stat., sec. 84.523

event of a national emergency declared by Congress. In 1978, Congress passed the BWCAW Wilderness Act designating the Boundary Waters Canoe Area Wilderness. At that time, approximately 83,000 acres of school trust lands were placed under the wilderness designation and thus incapable of generating revenue. Efforts by the State of Minnesota and the United States Forest Service (USFS) to resolve the set-aside of school trust lands have been on-going for many years. Though this project is complex and challenging, significant progress has been made since the 1978 Wilderness Act, as described below.

The Hybrid Model

In 2009, the DNR and USFS initiated a new effort to resolve the issue of school trust lands within the BWCAW. A group of interested stakeholders, legislators, USFS, and DNR developed and agreed to a hybrid exchange and sale model. The hybrid model's goal is to extinguish school trust interests in the BWCAW. This is accomplished with an exchange of one-third of the school trust lands and sale of the remaining two-thirds to the USFS.

The Minnesota Legislature enacted two statutes in 2012 to expedite the hybrid model. The expedited land exchange statute authorizes DNR to modify its process for appraisal and land title review. It also identifies legislative priority areas. The expedited land sale statute instructs the state to condemn the school trust land interests in the BWCAW and sell directly to the USFS. It also provides the state with flexibility regarding appraisal and title standards.

Project #1: The Federal Land Exchange

Background

Minnesota formally proposed the one-third land exchange in August 2012. Since that time, the DNR and USFS Superior National Forest have been actively engaged in a land exchange project that would replace up to 31,000 acres of school trust lands in the BWCAW with equivalent land currently in federal ownership that could produce future revenue for the trust. Both parties have worked collaboratively to advance the project.

Project Information

- Partners involved:
 - US Forest Service, Superior National Forest
 - State of Minnesota
 - Department of Natural Resources
 - Office of School Trust Lands
 - Legislative Permanent School Fund Commission
- Project status:
 - The proposed land exchange is undergoing an Environmental Impact Statement assessment.
 - The appraisal process, necessary to facilitate the transfer of land ownership, is underway.

Evolution of the Hybrid Model

Minnesota formally proposed the two-thirds land sale in August 2012. In order to accomplish this project, Minnesota must first extinguish the school trust lands interests prior to a direct sale of the land to the USFS. This entails the state bringing condemnation actions on approximately 52,000 acres situated in three counties within the BWCAW. The Minnesota Legislature appropriated funds to initiate the state's BWCAW activities.

The USFS required funding, appropriated through the federal budget process, to purchase the 52,000 acres of school trust lands. The USFS continued to be unsuccessful in receiving appropriations after requesting funding for the purchase for many years. To provide assistance with funding requests and maintain momentum on the project, the State of Minnesota and the USFS developed a partnership with The Conservation Fund (TCF). The partners worked together to create a unique solution to this ongoing effort called the "Plan B: Private Forestland Alternative" (Plan B). This alternative includes pivoting on the plan for the sale of the remaining two-thirds school trust lands in the BWCAW. Instead of a sale to the USFS, there will be a new land exchange proposed between TCF and DNR; exchanging school trust lands in the BWCAW for private productive forestlands outside the wilderness. This new land exchange proposal would be implemented in phases.

According to The Conservation Fund's website, Plan B is embraced by local governments, environmentalists, school districts, timber companies and communities as it plans to secure more than 40,000 acres of productive timberlands for the school trust, while protecting more than 50,000 acres within the BWCAW for enhanced hiking, canoeing, camping and fishing opportunities.

Project #2: The "Plan B" Private Forestlands Exchange Alternative

Background

A multi-year effort is underway between the State of Minnesota and The Conservation Fund (TCF) that will significantly expand revenue opportunities for Minnesota's public school districts and reduce patchwork ownership within the BWCAW. The hybrid model's two-thirds sale approach, implemented via the Plan B option, will ensure that revenue generation is achieved in the near-term. The proposal lays out that the State of Minnesota will exchange, in phases, the school trust lands within the BWCAW for equally valued productive timberlands acquired by TCF. The plan is for TCF to acquire the private timberlands and enter into land exchanges with the DNR as follows:

- Phase 1 & 2 Land Exchange (≈16K private acres)
- Phase 3 Land Exchange (≈8K private acres)
- Phase 4 Land Exchange (≈8K private acres)
- Phase 5 Land Exchange (≈8K private acres)

To close out the project, TCF will then sell, in phases, the former school trust lands to the US Forest Service for incorporation into the BWCAW.

Project Information

- Partners involved:
 - The Conservation Fund
 - State of Minnesota
 - Department of Natural Resources
 - Office of School Trust Lands
 - Legislative Permanent School Fund Commission
- Project status:
 - The Conservation Fund set to purchase up to 40,000 acres of high value private forestlands, located throughout northeastern Minnesota
 - The appraisal process, necessary to facilitate the transfer of land ownership, is underway.
 - Preparing to meet with the Land Exchange Board, which includes the Governor, State Auditor, and Attorney General and requires unanimous approval.

Collaborative partnerships and congressional funding will allow the federal government to fulfill its obligation to the State of Minnesota, the Permanent School Fund, and the fund's beneficiaries.

Asset Management Plan

Minnesota's population, demands on natural resources, and school funding needs have increased significantly since school trust lands were granted by the federal government to the state in 1857 to provide income for Minnesota's public schools. What remains unchanged is the intent of the language in the Minnesota Constitution that directs that school trust lands be managed to provide a steady stream of income to support Minnesota's public schools.

To help address these changing conditions, the DNR is assisting the Office of School Trust Lands (OSTL) in the Office's effort to create the state's first School Trust Land Asset Management Plan. The OSTL has contracted with an institutional investment consultant, [Callan LLC](#), to develop the plan. The purpose of the project is to create a robust asset management plan that will identify the best and most efficient mix of revenue-generating opportunities to increase the value of school trust assets and related cash flows while enhancing the compatibility of revenue generation with sound natural resource conservation and management principles.

The project is expected to last approximately 12 months and the OSTL/DNR project team anticipates seeking input from school trust beneficiary groups, tribal government representatives, conservation organizations, and local units of government during its development. A final plan is expected in late 2020.

Additional project information is posted on the OSTL website at mn.gov/school-trust-lands/AMP.

Promotion and Outreach

DNR staff spent significant time conducting outreach and communication efforts during the biennium. Topics ranged from role of the DNR as trustee, mineral potential of the school trust lands, and land asset management.

DNR used available platforms to reach broad-ranging audiences across the state. Outreach efforts include state fair displays, newspaper and television interviews, and technical presentations at professional conferences, a selection of which are listed below.

- In FY18 and FY19, the Division of Forestry created a presentation and instructed the 15 Area Forestry Office Supervisors to deliver the presentations to local school boards with the intention of providing greater understanding of forest management on school trust lands.
- In FY18 and FY19, DNR highlighted school trust lands at the Minnesota Minerals Education Workshop. The workshop attendees are mostly K-12 teachers and in FY19, the teachers visited an active gravel pit site on school trust lands.
- In FY18 and FY19, DNR created and displayed state fair exhibits communicating the role of minerals in funding the Permanent School Fund. An estimated 800,000 people visit the DNR state fair building annually.
- DNR work and staff were featured in a number of newspaper articles and magazines which promotes the benefits of minerals, mining, and research for the school trust lands:
 - 2/26/2019 Mesabi Daily News: Scanning the Range’s Future
www.virginiamn.com/mine/scanning-the-range-s-future/
- DNR staff were featured on interviews promoting minerals and research, which benefits the trust.
 - 01/24/2019 KBJR 6 television interview: Scanner being used in Hibbing gives better understanding of mineral deposits
www.kbjr6.com/news/iron-range/
 - 1/24/2019 WDIO television interview: Corescan Imaging Technology Used to Identify Minerals
www.wdio.com/TWIM/corescan-imaging-technology-drill-samples-mining-minerals/

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