MINNESOTA
OFFICE OF SCHOOL TRUST LANDS

DEPARTMENT OF NATURAL RESOURCES

DEVELOPING AN ASSET MANAGEMENT PLAN FOR SCHOOL TRUST LANDS

INTRODUCTION

Imagine having a comprehensive asset management plan for school trust lands that is straightforward and easy to implement. What would that look like?

The Office of School Trust Lands (OSTL) and Department of Natural Resources (DNR) are utilizing this framing question to develop the first-ever asset management plan for Minnesota's school trust lands. OSTL, in conjunction with DNR, is required by Minn. Stat. sec. 127A.353 subd.4(a)(6) to prepare a 25-year framework for school trust land management, and a comprehensive asset management plan will fulfill this statutory requirement. Accordingly, development of such a plan was identified in the 2018-2028 School Trust Strategic Plan as a key strategy to guide future DNR school trust land management activities.

This paper serves as an introduction to the development of an asset management plan, and is intended to provide a basic foundation for DNR leadership and staff, legislators, trust beneficiary representatives, and other stakeholders who may not be familiar with such plans. It explains the purpose of a plan, as well as the processes and considerations that go into its development. It also describes the content needed to ground such a plan, and outlines who will need to be involved in creating it. Further, it outlines the resources required to conduct such a project, and discusses the plan's construction, adoption, and implementation.

DEFINITION AND PURPOSE

An asset management plan is a written document that clearly and easily presents the overall long-term vision, operating philosophy, and general direction used to manage assets. Asset management plans are used to ensure that assets are managed efficiently to optimize overall objectives. States with significant trust land holdings routinely use asset management plans to guide their trust asset management activities.

The primary purpose of an asset management plan for Minnesota's school trust lands is to create a framework for achieving the best and most efficient mix of revenue-generating opportunities, while minimizing risk to the portfolio of trust assets. Anticipated outcomes of a plan include:

- Identified school trust asset classes and classification of core and non-core assets.
- Strategies to increase the long-term economic value and returns from school trust assets, including:
  - A fair market land value benchmarking methodology to accurately measure the assets.
  - Benchmarks for management cost structure.
  - Established performance metrics to understand and measure portfolio performance.
  - Strategies to improve trust revenue, reliability, and rates of return.
- Recommendations to rebalance the asset portfolio with assets of high performance potential.
- Evaluation criteria for the disposal of underperforming assets.
- Priorities for trust management activities.
- An understanding of current economic conditions and forecast trends impacting school trust asset performance.
- Recommendations regarding how to balance revenue enhancement with resource stewardship.
- A recommended strategy to monitor, minimize, and control risks to the trust.

- A framework for detailed asset business plans for each trust asset class to provide operating direction to asset managers as they implement day-to-day management decisions involving school trust assets.
- A recommendation for a performance reporting framework.

An **asset management plan** specifies policy direction and serves as a "guidebook" to ensure that agency staff, stakeholders, public officials, and the general public understand what considerations are regularly employed whenever a decision is made concerning the management of trust assets.

An asset management plan is an overarching document supported by **asset business plans** for each trust asset class. These business plans serve as "operator's manuals" and provide operating direction to asset managers as they implement day-to-day management decisions involving trust assets.

Preparing an asset management plan is a major undertaking requiring considerable planning and research to develop a durable and useful product. It requires a thorough understanding of:

- The **purpose** of an asset management plan and how it will be used.
- The **legal framework** that directs trust management goals and objectives, including constitutional and statutory authority, administrative rules and agency policy directives, and how this framework has been previously used in decision-making processes.
- The **fiduciary duties of a trustee** to manage for the benefit of the trust beneficiaries, with "benefits" typically defined in terms of monetary returns.
- The **asset itself**, including its extent and character, history and prior management, financial performance and risk profile.
- The **performance management methods** needed to evaluate progress in meeting the plan's purpose and goals to manage asset-related performance targets.

KEY CONSIDERATION: UNDERSTANDING THE TRUST ASSETS

A critical element of an asset management plan is a system to classify assets in a meaningful way. Classifying asset holdings into broad categories allow them to be aggregated, thereby facilitating more robust management and analysis. Benefits of classifying assets include the ability to:

- Customize plans and strategies to optimize returns based on specific asset characteristics.
- Benchmark asset performance against similar lands or industry standards.
- Compare actual asset allocation to recommended target ranges.
- Adjust asset allocation over time.

One of the first tasks of the planning team will be to classify and define the school trust asset classes. Once the asset classes are defined, they can be further analyzed to identify:

- Actual asset acreage and location.
- Type of state ownership interest (in fee or split estate).
- Determination of performing (revenue-producing) and non-performing asset status, and asset performance potential.
- Assessment and valuation of trust resources.
- Primary, secondary, and potential future uses.
- Revenue history and revenue potential for each asset class.
- Attributes including the presence of rare, historic or cultural resources.

- Criteria/guidelines for asset retention/exchange/divestment.

Lands can be reclassified to meet changing markets, capitalize on emerging or alternative opportunities, or as external factors affect its primary use. Reclassification protocols will be developed as part of the asset management plan.

KEY CONSIDERATION: UNDERSTANDING TRUST PERFORMANCE

A critical element of the asset management plan will be to identify current financial performance, related both to revenues and expenditures, to determine performance targets and guide business management plans.

Financial Performance Analysis. In this analysis, historical revenue streams from core trust assets, or specific types of properties within a given resource classification, are compared to the costs of administering the trust holdings to determine the financial return on school trust assets.

Many agencies may not have readily available records that will allow identification of historical revenue streams from individual properties. Instead, the revenue reports typically aggregate revenues by broad classes of holdings (e.g. minerals revenue, sand and gravel revenue, timber revenue, real estate transactions). Consequently, a significant amount of time and effort may be required to "unravel" revenue streams to reflect income from individual properties.

Management Costs Analysis. At the same time that an asset classification system is being developed, a similar effort should be ongoing to develop a management cost database. This is typically a difficult process because the readily available financial records of many agencies do not allow easy identification of the costs of property management on an individual property-specific basis. Instead, costs may be aggregated on an activity (e.g. "land management") or resource-type (e.g. "forestland") basis.

Without some level of detailed breakdown of the historic revenue derived from each primary asset class, it will not be possible to develop a profile of the return on asset value from revenue producing activities. This can be a key factor in determining whether a specific asset or group of assets should continue to be held, increased, or disposed of through exchange or sale.

Valuation and Performance Measures. Asset management plans are developed in order to direct the growth of trust assets. Current information on asset values and performance is essential for establishing appropriate rates of return against which to measure the performance of the assets. Performance goals, in return, can help predict future performance, and more importantly, serve as a starting point for trust land managers to plan actions that will affect future financial performance. Performance is assessed by how well an agency meets or exceeds the targets.

The ability to benchmark performance is critically important for asset allocation, investment, budget allocation and workload planning. Evaluating the financial performance of school trust assets is a constantly evolving process of balancing a wide range of financial, environmental, and social factors. No universal financial performance indicator is available that can comprehensively evaluate the type of diverse portfolio represented by Minnesota's school trust lands. Instead, a variety of measures and targets may be considered to measure the performance of the entire asset portfolio as well as the individual asset classes that comprise the portfolio.

Risk Management. A key component of an asset management plan is a careful and considered examination of risk. Trust asset management is subject to many risks: future commodity prices; uncertainties about the quality and quantity of the resource base; environmental factors including climate change; developing technology; input prices; and external or domestic political developments. Risk management mitigates the trust's liability through a process that identifies and assesses risks associated with a resource management decision and establishes a method to monitor, minimize, and control the risk. A plan should include development of an overall strategy that evaluates the components of risk so that likelihood and consequence of positive events is enhanced, and likelihood and consequence of negative events is reduced.

KEY CONSIDERATION: SETTING MANAGEMENT GOALS

Once the planning team has identified and understands the trust's assets, has determined the asset classes, and understands the portfolio's financial performance, it can develop a key element of the asset management plan: specific management goals for each asset class, which provide the guiding philosophy used to make future management decisions for that asset class.

BUSINESS MANAGEMENT PLANS: OPERATIONALIZING THE ASSET MANAGEMENT PLAN

While an asset management plan provides a framework for managing assets, detailed underlying business plans for each primary asset class contain the tactics and drive the management activities that support the overall goal of increasing returns to the permanent school fund, in concert with the rest of the land portfolio objectives. Asset business plans serve as "operator's manuals" for agency staff by providing specific implementation actions that are actively pursued over the life of the plans. Such plans typically:

- Describe the current and future influences on plan implementation and performance.
- Analyze past and present return on asset performance, current asset value, current asset characteristics, and future expected returns.
- Recommend long-term financial and asset management objectives for the asset class.
- Contain a market analysis including market size, growth, trends, profitability and key success factors.
- Outline challenges and opportunities (including risk assessments).
- Compare profitability with other trust lands or similar land types.
- Specify plans to meet program and financial goals.

DEVELOPING THE PLAN

Once an agency has decided to develop an asset management plan, a **core planning team** must be assembled. This team should consist of a broad range of staff having an understanding of the key asset management functions of the agency such as field operations, policy and planning, and accounting and finance, as well as the agency's "corporate history."

In addition to this core group, one or more teams of **subject matter experts** will need to be involved in the planning process, particularly the development of management prescriptions. These teams might consist of representatives of each of the primary uses of the subject assets (e.g. mining, forestry, real estate, etc.).

At some point in the planning process it is critical to gain input from **stakeholders** through listening sessions, consultation meetings or workgroups. These stakeholders should include beneficiary representatives, conservation and recreation groups, key legislators, county land commissioners, industry, and federally recognized Tribes who have interests related to school trust asset management. These stakeholders should truly have interest in the project, want to see the agency succeed in its trust land management efforts, and have a vested interest in the results.

Role of Consultants. The core planning team may decide to retain consultants to assist in developing the asset management plan. This can be very beneficial since some agencies have neither in-house expertise in all areas of asset management and financial performance evaluation, nor the ability to undertake the volume of work required to complete an asset management plan. In addition, if used properly, consultants can bring not only additional credibility to the plan development, but also greater objectivity.

Note that even if consultants are retained, it will take a considerable amount of agency staff time for the consultants to gain the necessary historical information and perspective to assist constructively in the preparation of the plan.

ADOPTING AND IMPLEMENTING THE PLAN

A key component in the development of an asset management plan is keeping the agency's leadership, stakeholders, and key legislators involved in its development. Unless these groups are regularly kept informed of the progress being made on the plan, and their input sought at critical junctures in the development process, they will not feel any linkage to, nor ownership of, the final plan.

Regardless of the quality and comprehensiveness of the plan, it will have little utility unless it becomes a living document routinely used by staff in making land use decisions. Agency staff, therefore, must also be involved in the plan's development to understand the plan contents and rationale behind the management prescriptions. Additionally, to give the plan legitimacy, it also must in some way be endorsed or adopted by the governing board/commission.

It is prudent to incorporate a requirement in the plan that it be periodically reviewed by the planning team and agency staff. Such a review is necessary to ensure that the plan remain a viable policy instrument and reflective of the philosophical orientation of the agency and changes in the economic and legal environment.

TIMELINE

A typical timeline for asset management plan development (when utilizing consultants):

Identify and contract with consultant	1-2 months
Develop and complete first draft	3-5 months
Review and complete second draft	1-2 months
Finalize and publish final plan	1-2 months

SAMPLE ASSET MANAGEMENT PLANS

As mentioned above, numerous states use asset management plans to guide their trust land management. The following examples may provide helpful context.

- Oregon Department of State Lands, *Real Estate Asset Management Plan*
  https://bit.ly/2SPaYIf
- Idaho State Board of Land Commissioners, *Endowment Lands Asset Management Plan*
  https://bit.ly/2EUrDX0
- Alaska Mental Health Trust Authority, *Resource Management Strategy*
  https://bit.ly/2C8sPnZ

SAMPLE ASSET MANAGEMENT PLAN TABLE OF CONTENTS

For reference, below is the table of contents from the Idaho State Board of Land Commissioners 2011 *State Trust Lands Asset Management Plan*.