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A REVIEW OF THE
DEPARTMENT OF NATURAL RESOURCES'
OPERATION AND MANAGEMENT OF
THE PERMANENT SCHOOL FUND

AUDIT REPORT
OF
THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA
ST. PAUL

HD
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A REVIEW OF THE
DEPARTMENT OF NATURAL RESOURCES'
OPERATION AND MANAGEMENT OF
THE PERMANENT SCHOOL FUND

OFFICE OF THE LEGISLATIVE AUDITOR
FINANCIAL AUDIT DIVISION

June, 1981



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
Veterans Service Building, 1st Floor West Wing
St. Paul, Minnesota 55155

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Senator Donald M. Moe, Chairman
Legislative Audit Commission

and

Joseph N. Alexander, Commissioner
Department of Natural Resources

This report deals with the Department of Natural Resources' (DNR) management of 2,521,000 acres of Permanent School Fund land which is held in trust for the school districts of the state.

The Permanent School Fund's major assets currently consist of a nonexpendable investment principal of \$278 million invested by the State Board of Investment and the land managed by the Department of Natural Resources. The revenue from the sale or use of the 2,521,000 acres increases the nonexpendable investment principal of the Permanent School Fund. Income earned on the \$278 million is annually distributed to the school districts through the Endowment School Fund.

Our review disclosed major problems in the way that the Department of Natural Resources is managing the Permanent School Fund land, including:

- They have not established any objectives for the overall management and use of the land.
- Haphazard sale of land that occurs mostly after inquiry from sources outside the Department of Natural Resources.
- When lakeshore lots were leased, it was done so at rates only one-half that of lakeshore lots managed by the U.S. Forest Service, and the state rates have been unchanged for the past six years. Total revenue lost, much of which belongs to the Permanent School Fund, is estimated at \$240,000 per year.
- Inadequate financial management of the revenue collected for the Permanent School Fund has resulted in an interest loss to the fund of over \$300,000 in the last 21 months.

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Senator Donald M. Moe, Chairman
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Joseph N. Alexander, Commissioner

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- Permanent School Fund land has been used by the Department of Natural Resources as components of restricted areas such as state parks, state forests, and public accesses. The Department of Natural Resources has not compensated the Permanent School Fund for effectively removing this land from any revenue producing possibility.

While we consider all of these problems to be serious, perhaps the greatest danger concerning the management of the Permanent School Fund is in the future. According to a report issued by the Department of Natural Resources, there exists in an approximately 13 square-mile area in northern Minnesota copper-nickel resources with current values in excess of \$100 billion. Also, the report says that there are lesser, but significant amounts of silver, gold, platinum, palladium and cobalt. Approximately 29 percent of this land is owned by the Permanent School Fund. In addition, much of the Permanent School Fund land in Minnesota contains peat deposits which have the potential to be a future energy source. The possibilities for utilization of Permanent School Fund land for mineral and peat development in the future make it crucial that initial decisions regarding this development be handled correctly.

It is our conclusion that significant changes are necessary in the current management of the Permanent School Fund land. The Department of Natural Resources should not have the sole decision-making authority over the use of the land. Competing interests within the Department of Natural Resources make it improbable that the maximum rate of return will be earned by using that approach. The management of the Permanent School Fund can be improved in a number of different ways, but our one recommendation is that some management oversight be established outside the organizational structure of the Department of Natural Resources.

The purpose of this report is to set in motion the changes that are needed in the management structure of the Permanent School Fund. The implementation of these proposed changes could result in a greater return on Permanent School Fund land.



Eldon Stoehr
Legislative Auditor

June 22, 1981

PERMANENT SCHOOL FUND

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OBJECTIVES AND SCOPE OF THE REVIEW

The objectives of this review were to analyze the effectiveness of the policies and procedures used by the Department of Natural Resources (DNR) for the administration of the Permanent School Fund (PSF). This included a review for compliance with applicable statutes, rules, and regulations, and determination that the financial transactions and operations are sound and are for the best interests of the general public. The review was also conducted to determine the adequacy of the rate of return on fund land, if improvements in the operation of the PSF could be instituted, and if the management structure of the PSF is the best one suited to maximize the benefits for the recipients of the fund.

The scope of this review included an analysis of the laws and regulations, receipts and expenditures, and administrative procedures for the PSF, with major emphasis on the last ten years.

SIGNIFICANCE OF THE PERMANENT SCHOOL FUND

The PSF currently consists of approximately 2,521,000 acres of land located in the northern half of the state, and a nonexpendable investment principal of \$278 million (current market value \$252 million) at June 30, 1980, which is invested by the State Board of Investment (SBI). The following table illustrates the counties in Minnesota that contain PSF land in excess of 100,000 acres:

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<u>County</u>	<u>Number of Acres</u>	<u>Percentage of Total PSF Land</u>
Aitkin	138,983	6 %
Cass	136,724	6 %
Cook	121,193	5 %
Itasca	292,563	12 %
Koochiching	854,652	34 %
Lake	161,058	6 %
St. Louis	483,463	19 %
TOTAL	<u>2,188,636</u>	<u>88 %</u>

In fiscal years 1979 and 1980, revenue resulting from the sale or use of the land, which was added to the principal, amounted to \$3,020,000 and \$5,195,000, respectively. This amounts to an average earnings per acre of \$1.20 for 1979 and \$2.06 for 1980. Eighteen million dollars was earned on the investment principal by SBI and was distributed to the school districts through the Endowment School Fund. However, the most significant impact of the PSF may be the future potential for peat and mineral leases. In a 13 square mile area in northeastern Minnesota, of which the PSF owns an estimated 29 percent, there are copper-nickel resources with current values exceeding \$100 billion. The total complex consists of 1,500 square miles and, according to the Minerals Division of DNR, has good potential for the discovery of additional mineral resources.¹ In addition, Minnesota has a peat reserve of 5.9 million acres, approximately one-half of which is owned by the state. Although DNR could not provide us with exact figures, it is believed that a large portion of this state-owned peatland is in fact PSF land. DNR has recently completed a study concerning the future use of peatlands, and has concluded that peatlands are a valuable resource. As an example, Minnegasco has applied to DNR for peatland

¹Minnesota Government Report, March 19, 1981, p. 5.

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leases totaling 200,000 acres, which would be used for energy production. Consequently, the future potential for revenue from PSF peatland may be highly significant.

Since the beginning of the current financial crisis of the State of Minnesota, attention has been directed toward reducing costs and obtaining new sources of revenue. With this in mind, maximizing the return on the PSF lands could be one means of at least partially satisfying those objectives. However, it should be kept in mind that only the proceeds from investing the money (by SBI) can be distributed to schools and not the entire proceeds from the sale of land. Thus, even if PSF land was sold, the proceeds could not be directly used to offset the General Fund deficit.

HISTORY OF THE PERMANENT SCHOOL FUND

The PSF consists of:

- the proceeds of lands granted by the United States for use of schools within each township,
- proceeds derived from swamp lands granted to the state,
- all cash and investments credited to the Permanent School Fund and Swamp Land Funds, and
- all cash and investments credited to the internal improvement land fund, and the lands therein.²

The principal of the fund is perpetual and inviolate, however, the interest and dividends arising from the fund are distributed to the different school districts of the state in proportion to the number of students in each district between the ages of 5 and 21 years.

²Minnesota, Constitution, art. 11, sec. 8.

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School lands were reserved for the state-to-be by the Organic Act of 1849, and actually granted to the state by the Enabling Act of 1857. This reserved sections 16 and 36 in each township and resulted in the conveyance to the state of approximately 2,900,000 acres of land. The income from these lands was to be placed in trust to support public schools. On September 4, 1841, a federal statute granted to Minnesota 500,000 acres of land for internal improvements, including the construction of railroads. In 1860, the United States Congress granted to the State of Minnesota swamp or overflowed lands amounting to 4,777,636 acres. The proceeds from the sale of these swamp lands were to be used, as far as was necessary, for the construction of levees and drains.³ These three funds have now been consolidated into one fund, the Permanent School Fund.

The original policy of the state was the speedy survey and sale of the land to generate income for the trust funds and facilitate economic development and growth in Minnesota. In 1872, the constitutional amendment of November 5 provided that the internal improvement lands should be appraised and sold in the same manner as the school fund and, in 1881, similar arrangements were completed for the swamp fund lands. Gradual modification of the quick-sale policy resulted in permanent state ownership of certain lands, including the reservation of mineral rights in 1889 and the creation of Itasca State Park in 1891. Water power sites and state lands bordering on or adjacent to public waters were also withdrawn from sale through legislative action in the early 1900's.

³Dana, Allison, Cunningham, Minnesota Lands, (Washington D.C., American Forestry, 1960.)

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Acquisition by the state of land from private owners is a relatively recent occurrence and includes private holdings within state parks, state forests, fish and wildlife habitat, public accesses to lakes, and lands acquired for other purposes. More than one-half of the state forests and state park systems were established between 1930 and 1950, with the vast majority being trust fund land, conservation land, and tax forfeited land.

The administration of lands was relegated in 1861 to the State Board of Commissioners of School Lands, consisting of the Governor, the Attorney General, and the Superintendent of Public Instruction, to which was given "general care and supervision of school lands, the selling and leasing of the same, and the investment and disposition of the funds arising therefrom." This board was abolished after one year, during which time no school lands were sold. In 1862, the Legislature established a State Land Office and made the State Auditor the Commissioner ex officio, with responsibility for supervision of state lands, including authority to sell, lease, or dispose of them as directed by law. In 1931 the Department of Conservation was organized, and responsibility for management of state lands was transferred from the State Auditor's office. The Department of Conservation was reorganized into the Department of Natural Resources in 1969, and maintained the responsibility for the management of the PSF.

The PSF currently consists of 2,521,000 acres, of which 954,000 remains from the school land grant, and 1,560,000 acres and 7,000 acres from the swamp land grant and internal improvement land grant, respectively.

WEAKNESSES IN THE MANAGEMENT OF THE FUND

As mentioned earlier in the report, our objectives included a review of policies and procedures, compliance with laws and regulations, financial

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analysis, and determination of the efficiency of operation. During our review of this fund, five major areas of concern were discovered that could influence the effectiveness of managing the PSF. These areas are discussed below.

1. DNR has failed to establish objectives for the management of the PSF.

Establishing objectives involves the primary managerial function of planning, and in order to determine objectives, the purpose of the entity has to be defined. The purpose of the PSF is to aid public education and the optimum way to aid public education is for the PSF to provide maximum financial support.

Consequently, the objective of the PSF should be to maximize the revenue earned on the land. We attempted to verify that DNR had established this objective for the PSF, but we found no evidence in DNR to substantiate the existence of any formal objectives. In fact, Land Division personnel advised us that they knew of no objectives, and this is the division responsible for management of the fund. Viewed from a different aspect, the Department of Education could be considered the recipient of the earnings of the fund, yet, they are not consulted as to any preferences or objectives they feel are essential.

Objectives represent not only the end point of planning but the end toward which the entity is directed and controlled. Without objectives, there cannot be efficient management of the fund. An example of a possible conflict in attempting to maximize profits is the alternate selection of short or long-term goals. While holding land for long-term appreciation is one method of maximizing profits, so is the short-term goal of selling the land. A continuous evaluation should be completed to determine the profitability of each, and we found no evidence of any comparison or of any study to evaluate these

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alternatives. In addition, appreciation of land values in state forests or other restricted areas is the effect of the policy, not the established objective. Also, any profit on the appreciation of this land in restricted areas will not be realized because it can only be used for the purpose of the restriction. Without clear objectives, managing is haphazard and random, and no individual or group can be expected to perform effectively or efficiently unless a clear goal is sought.

2. DNR has not established adequate policies and procedures to maximize the revenue for the PSF.

Policies denote a general program of action and a deployment of emphasis and resources toward the attainment of comprehensive objectives.⁴ In our review of the PSF, an analysis of the current programs in use by DNR was completed. We found various programs where the policies of DNR would not result in the maximization of profit for the PSF, and these are given below.

Sale of Land

DNR currently manages approximately 2,500,000 acres of land for the PSF, yet in the past 11 years only 13,000 acres were sold. In talking with representatives of the Land Division, they stated that land sales originate from two sources outside DNR: (1) legislative requests, and (2) requests for purchase by an individual. In either case, there is no strategy to dispose of unneeded land by DNR. In addition, the current contract terms for land sales are not comparable to commercial land sales. The current terms include an

⁴Koontz and O'Donnel, Management, Sixth Edition, (New York, McGraw-Hill, 1976.)

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interest rate of 4 percent and a contract length of 20 years. DNR attempted to increase the interest rate by the introduction of bill H.F. #253 in the 1981 Legislature, but the bill failed to pass. DNR did not attempt to alter the length of the contract. In a brief survey with four realty companies, the average length of a similar contract in the private sector was determined to be about seven years. The longer term reduces the potential profit to the fund because the quicker the money is received, the sooner it can be invested.

Leasing Lakeshore Land

DNR currently leases land for various purposes, including mineral leases, timber sales, agricultural, commercial, governmental and recreational leases. While a lack of information limited our review, we did find that the procedures were inadequate for leasing lakeshore lots. The yearly rates for the leases are 5 percent of the appraised value, or amounting to approximately \$150 per lease per year. The Land Division has advised us that the rate is probably too low and should compare dollar-wise to the \$300-\$350 charged by the U.S. Forest Service. One probable reason for the difference in rates is the frequency that land appraisals are done by DNR. The U.S. Forest Service appraises their leased land every five years, while DNR has done it every ten years. In an era of rapidly escalating land values, it may be necessary to do land appraisals more often. DNR has informed us that they plan to go to a five year cycle starting in 1985. While time limited us from determining all the reasons why the DNR lease rate was significantly lower than the federal lease rate, DNR should review this situation. If the assumption by the Land Division that the lakeshore lease rates should be doubled is correct, the state, primarily the PSF, is losing up to \$240,000 each year in lease revenue.

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Lack of an Inventory

An essential element in any management organization is a thorough knowledge of what you are managing. Relating this to the PSF, an accurate inventory of the land, including the various types of uses, the revenue from each type of lease, the number of acres for each use, etc., is necessary in order to effectively manage the PSF lands. Various inventory records that were not readily available include:

- the number of acres leased;
- the number of acres of each type of lease, such as lakeshore, agricultural, etc.;
- land withheld from sale by various divisions of DNR;
- land included in state trails;
- land in public accesses;
- land in the scenic river system; and
- scientific and natural acres.

Without these figures, an accurate evaluation of a rate of return was not possible. Also, this information would be necessary when setting objectives and policies of the PSF, because evaluation of this data is necessary for comparison to established objectives. Personnel from the Land Division have informed us that they will be implementing a computer inventory system later this summer. Determining the rate of return for the PSF will not be feasible until an adequate system is operational.

Exchange of Land

The school trust fund originally consisted of sections 16 and 36 in every township. Many of these scattered sections still exist. The scattering of land ownership tends to result in higher administrative costs. An exchange

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of land to consolidate some land holdings would benefit the PSF and DNR in two respects: first, it would reduce administrative costs and, secondly, the larger land holdings would be susceptible to management operations not previously available. Since the state now maintains mineral rights to all land sales and exchanges, an analysis of the advisability of holding on to the approximately 100,000 acres of PSF land in the Boundary Water Canoe Area (BWCA) should be completed. Since timber sales are somewhat restricted, and mineral rights are retained on any land exchanges, an exchange of this land for possible revenue producing land owned by the federal government should be considered. The U.S. Forest Service has offered to exchange this land, but DNR has declined. If, for reasons other than those mentioned, DNR wishes to have land in the BWCA, some means of compensating the PSF should be considered. This could be accomplished by DNR condemning the PSF land in the BWCA, which would result in a lump sum payment by DNR to the PSF for the appraised value of the land. An alternative method would be to reimburse the PSF annually for the land in the BWCA. This is currently done by the U.S. Forest Service, which pays the counties for federal land held in the BWCA. DNR could provide similar payments to the PSF. DNR has advised us that the Land Exchange section will be enlarged, and this may facilitate the additional exchange of land.

3. DNR has not provided adequate financial management for the PSF.

We stated earlier that the review also included an analysis of the financial management of the revenue earned on PSF trust lands. Responsible financial management is an essential element in the administration of the fund, and a responsibility of DNR. Various problems were encountered in our review including:

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- A delay in the transfer of funds from a DNR clearing account to the PSF account. Revenues are initially recorded in a clearing account and later transferred to the proper fund. Because DNR failed to transfer out these funds on a timely basis, in the past 21 months the PSF lost over \$300,000 in interest. As of May 13, 1981, the Mining Advance Royalty account had a balance of \$3,020,000, much of which could have been distributed to the appropriate funds.
- Establishment of a clearing account for PSF revenues in a fund other than in the PSF. This resulted in temporary investment earnings to be earned by a fund other than the PSF.
- Failure to close out a mineral royalties suspense account. DNR supposedly closed out this clearing account 18 months ago, yet as of May 1, 1981, \$82,000 remains in the account. This amount could have been distributed to the proper funds.
- Lack of written policies and procedures for the recording of mineral receipts. The position responsible for the recording of mineral receipts has been vacant for six months, and the person eventually filling this position will find it difficult to learn the functions of the job without adequate written procedures.

All of these problems, while significant in themselves, indicate that DNR failed to manage the receipts of the PSF properly. When pointing these problems out to the Administrator of the Land Division, he stated that financial control is the responsibility of the Fiscal Services Division. While this may be true, it points out the lack of a review system over the financial management of the fund.

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4. DNR has not adequately compensated the PSF for the use of PSF land.

The basic objective of the PSF should be to receive as much revenue as is possible in order to aid public education. However, DNR has established restricted areas, such as state parks, state forests, and public accesses, and much of these areas consist of PSF land. When land is included in these areas, it can only be used for the purpose of the restriction. Consequently, outside of timber sales, PSF land in restricted areas is not producing revenue for the PSF, and DNR has not compensated the PSF when other revenue producing activities are precluded. It is not possible for the PSF to achieve the maximum rate of return when the lands are handled in this fashion.

Various personnel within DNR recognize the fact that the problem of compensation to the PSF for these lands exist. In 1978, an attempt was made by the Commissioner of DNR to obtain funds to purchase PSF land within these restricted areas. This request was denied. Nonetheless, DNR has failed to adequately compensate the PSF for all land included in the restricted areas.

While there may be some argument against compensating the PSF for this land use, we did find two studies relevant to this problem. The State of Washington addresses this issue in relation to the role that the Washington Department of Natural Resources assumes towards their PSF.⁵ The State of Washington, in a report by the Lewis and Clark Law School on Environmental Law, recognized the trustee relationship of DNR to their PSF lands. They state that "the trust concept establishes a recognition of the cost of withdrawing these lands from income production." They go on to say that granted lands can be used for any public purpose provided that if use decreases income to the fund, then the trust fund must be reimbursed. This would correlate to

⁵Don Lee Fraser, Sustained Yield Management: Economics and Evenflow, Environmental Law, 1977

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land included in restricted areas by the Minnesota DNR. "This requires that every proposal for diverting land to a special purpose have a price tag assigned. There is no such thing as free land--if land is desired for a new purpose, then new land must be obtained or present purposes must be foregone on land already held. Either way the cost is the same." These statements indicate the recognition of the cost of withdrawing land from potential revenue sources.

The second support for payment to the PSF is from the Minnesota Constitutional Study Commission Natural Resources Committee Report.⁶ They state that:

"The Trust Fund lands must be managed for income, although ecological considerations are important in the minds of those responsible for their administration. A scientific or natural area is probably not income producing. Hence, trust administrators would consider such use of Trust Fund lands a violation of their obligations.

While the state forests are, in one sense, investments of the public in the natural resources of the state, they can also serve to provide other uses to the citizens. At most places, the state forests can provide some recreational resources for the people of the state. They can provide "green space." Since the state committed itself, when accepting the lands, to use the proceeds for school purposes, the principal objective must be sound management for income, consistent with overriding public concerns. Thus Trust Fund lands in state forests can never be 'wilderness areas,' since this would not provide the kind of support for schools required by the trust undertaking. Nor can they be state parks, with developed and permanent recreational facilities.

These are very good arguments for preserving and protecting wilderness areas, scientific areas, and parks. The Legislature can accomplish this by appropriating the necessary funds for the purchase of land. In proper circumstances it ought to do so. The stream of future finance for the schools, which the Trust Fund lands represent, ought to be protected too."

⁶ Minnesota Constitutional Study Commission, Natural Resources Committee Report, (November, 1972)

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Based on these studies, we conclude that DNR should compensate the PSF for the use of PSF land.

5. The possibility of conflicting priorities exists in the management of the PSF by DNR.

The potential for a conflict of priorities exists for DNR in the management of the PSF. An example was mentioned earlier and is the lack of adequate compensation to the PSF for use of its land. DNR has restricted various parcels of PSF lands in state parks and other DNR managed projects in attempting to achieve their departmental objectives. Many of the departmental objectives relate to the preservation and maintenance of land or water areas for the use and enjoyment of the general public. While lauding these objectives, they are in fact a direct contrast to the objectives of the PSF. The inclusion of PSF land in DNR's restricted areas removes the land from presently earning any revenue. As a result, DNR is attempting to achieve two distinct and incompatible objectives with the same set of resources. The second potential conflict existed when DNR completed the Land Classification Study in 1973. This study resulted in the classification of the use of the land, and the determination of what land to sell, and this directly affects the realization of earnings on PSF lands.

The purpose of the Land Classification study was to determine the retention, management, or disposition of public land to provide the maximum benefit to the people of this state. The plan for the study states that the "Department of Conservation encourages joint classification by the state and county and technical assistance from other agencies and people interested in

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good land management."⁷ Outside of DNR, there existed no one to represent the PSF. DNR operational order #30 lists the various duties of the Land Specialists, including assisting the Regional Administrators to make final decisions on land use classifications for state land. There is no mention of the promotion of PSF objectives by anyone, implying that the PSF was in fact neglected. There is also the question of a conflict of priorities when classifying land, for how can a DNR employee properly classify a section of land when the interest of DNR might conflict with the PSF?

A report issued by the State Planning Agency concerning the classification of all state land addresses the same issues. It stated that ". . . (1) the classification assignments are prone to considerable error, oversight and bias, both personal and political; and (2) the value judgments and significance assigned to each of the relevant factors depend upon the individual doing the classifying, and thus, on a statewide basis the application of the classification tends to be insignificant, unsubstantiated and undocumented."⁸

CONCLUSION

Significant problems in the management of the PSF by DNR exist. We found that DNR failed to establish formal objectives, and that their policies did not maximize the profit for the PSF. They failed to take an active participation in the promotion of the sale of PSF land, and their policy toward the leasing of lakeshore lots may have cost the state over \$1 million in lost

⁷DNR Land Use Classification Project Report - #5018, Minnesota Land Management Information System, (July, 1975).

⁸Ibid.

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revenues during the last four years. Since most of the leases are on PSF land, the majority of this revenue would have been credited to the PSF account. The financial management of the PSF has been inadequate as demonstrated by the loss of over \$300,000 in interest to the fund. Because of a lack of an inventory system and insufficient procedures concerning leasing of lakeshore and the exchange of land, improvements in the operation of the PSF could be initiated. The operation of the fund for the best interests of the trust beneficiaries is questionable because DNR has not compensated the PSF for land restricted from use. We have also shown that a possibility of conflicting priorities does exist in the management of the PSF by DNR. Because of the problems indicated above, we believe that DNR should not have total responsibility for the management of the PSF.

The management of the Permanent School Fund can be improved in a number of different ways, but our one recommendation is that some management oversight be established outside the organizational structure of the Department of Natural Resources.

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LEGISLATIVE AUDITOR'S COMMENTS ON DNR'S RESPONSE

This response specifically addresses only the letter dated June 17th, signed by Steven G. Thorne. We have reviewed the more lengthy document submitted by DNR, but did not find any information contained in it that changed any of our report conclusions. Our comments are in the same order as the specific points raised in DNR's response:

- We disagree with the statement that the trust fund land is neither the Permanent School Fund, nor part of the Permanent School Fund. The trust fund land managed by DNR is an asset just as are the investments managed by the State Board of Investment. Both should be managed to maximize the rate of return to the trust beneficiaries.
- While DNR may disagree with the word "haphazard," they do not disagree with our conclusion that the present policies for sale of land need to be revised. The results of our work indicate that the land is primarily sold when requests from the public or Legislature are received, as opposed to any formalized policy for systematic sale or holding of land. In this case, the effect of such inaction worked to the fund's benefit. We are not confident that continued inaction will have the same result.
- Our report does not allege that DNR uses a ten year cycle for appraising lakeshore. The report said that they had been using a ten year cycle, but plan to use a five year cycle starting in 1985. The estimated annual loss of \$250,000 was revised to \$240,000 because the initial projection was based on a DNR supplied estimate of 1700 leases. This response indicates that the actual number is 1602. Additionally, the estimate that the lakeshore lease rates could be doubled was supplied by the DNR land division.
- Our report did not say that interest has been lost to the state. It did say that interest has been lost by the Permanent School Fund. This loss has occurred because DNR failed to make timely transfers of revenue to the appropriate accounts, which is the responsibility of DNR, not the Department of Finance. We have revised the estimated interest lost to the PSF to \$300,000 because of additional information provided by DNR.

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- While DNR may have purchased some trust fund lands through condemnation, they have also used the trust fund land prior to condemnation proceedings without compensating the PSF. DNR has free use of the land before purchase, as well as the authority to determine purchase dates. Undoubtedly, there has been legislative action regarding the PSF, but the primary input for policies and procedures regarding such areas as state parks and the use of trust fund land come from DNR. DNR has made several references to constraints imposed upon them by the State Constitution and Minnesota Statutes, but it is important to realize that as trustee of the land, DNR has responsibility to seek legislative changes that would be in the best interest of the fund beneficiaries.

Finally, the focus of this report was how DNR was handling their Permanent School Fund fiduciary responsibilities. We did not deal extensively with overall mineral and timber management because two studies concerning those areas were being planned by the Program Evaluation Division of the Legislative Auditor's Office. Preliminary work in these areas has been going on for the last eight to ten weeks. These studies were approved for further study by the Topic Selection Subcommittee of the Legislative Audit Commission on June 4th.



STATE OF
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

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June 17, 1981

FILE NO. _____

Mr. Eldon Stoehr
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Dear Mr. Stoehr:

Your draft audit report entitled "A Review of the Department of Natural Resources Operation and Management of the Permanent School Fund" (June 1981) includes serious factual errors and completely ignores numerous facts which are necessary to a proper evaluation and review of this complex subject. These flaws are so pervasive that it appears as if the audit team either failed to carefully research the subject or constructed the report to justify a preconceived conclusion.

This latter alternative particularly concerns me. At the entry conference, members of the audit team stated their view that the management of the Permanent School Fund included trust fund lands (which, incidentally, are not part of the fund contrary to the implication of the title of the draft report) should be subjected to some review external to the Department of Natural Resources. This conclusion was made before the audit had begun - that is, before the audit team even knew what kind of external review, if any, now exists and what the performance of the Department as manager of the trust fund lands has been.

Specifically our review disclosed the following major weaknesses in the draft audit report:

- The audit report ignores the existence and key role of express constitutional and legislative objectives for the management of trust fund land. The auditors failed to realize that the trust fund land is neither the Permanent School Fund nor part of the Permanent School Fund, and that constitutional and statutory mandates relating to the management of trust fund lands are separate and distinct from those relating to the management of the Permanent School Fund. Specifically, the investment provisions of Article 11, Section 8, apply to the Permanent School Fund, not trust fund land. Pursuant to the principles laid down in applicable constitutional and statutory provisions, the DNR has consistently striven to secure the maximum long-term economic return from trust fund lands consistent with sound environmental and natural resource conservation and management principles. Furthermore, the Department has established policies for management of various income producing resources principally timber and minerals, which are completely consistent with this overall objective and are equally applicable to trust fund lands as to other classes of land under DNR administration.

- The sale of state land is not "haphazard". On the contrary for many years the DNR has pursued a policy of not selling substantial acreages of trust fund, as well as other, lands. This policy has proven to have been an extremely wise choice, since the value of trust fund lands have increased at least tenfold since the 1930's. Lands that are sold are those which have been carefully reviewed and have been determined not to have significant long-term timber, mineral or other natural resource values. However, the Department has recognized that it is time to review this policy and has requested and received nearly \$500,000 from the 1981 legislature to do a complete state land suitability analysis and develop a policy and a long-term plan for the adjustment of state land ownership, including sale of such lands where that is the best management alternative.
- Since 1973 new leases of existing lakeshore lots have been prohibited by statute. So far as existing leases are concerned, the DNR has made a real effort, in the face of strong opposition, to bring historically low lease rates into line with current land values. Specifically, rents have been increased from a flat \$25.00 per lot in 1973 to an average of \$150 per lot in 1981. Rentals are now based on a percentage of the appraised value of the land and, contrary to the allegations of the audit report, leases now require reappraisal every five years. Finally, we question the assertion that the state has lost an estimated \$250,000 per year as a result of below market value rentals. This figure is based on the unsubstantiated assumption that lakeshore lots leased by DNR are equivalent in average value to lots leased by the United States Forest Service.
- No interest on trust fund land receipts has been lost to the State. Receipts from all sources are invested. At most, interest on trust fund receipts has been credited to the general fund. The Department believes that to the extent this has occurred the interest should be recovered from the general fund by the Commissioner of Finance who has the statutory responsibility for investment of the Permanent School Fund.
- The draft audit report grossly exaggerates the extent to which trust lands have been devoted to non-income producing uses and ignores the fact that in nearly all cases where this has occurred, such as state parks, it has been the result of legislative action. Many of the DNR managed units mentioned do not imply a limitation of the income producing uses of the land. This is particularly true of state forests which are managed on multiple use principles providing for both mining and timber production as well as other uses. (Also, the inclusion of trust fund lands in state forests is expressly permitted by Article 11, Section 11 of the Minnesota Constitution). In state parks, state wildlife management areas, and public accesses where income producing uses are limited, the DNR has consistently tried to compensate the permanent school fund through condemnation of the trust fund lands. In fact, during the 1981 session the Department sought and received authority to spend up to 20% of its land acquisition funding for parks and public accesses to condemn trust fund lands. Moreover, the DNR has a long history of condemning trust fund lands in wildlife management areas having expended almost \$1,000,000 for this purpose alone.

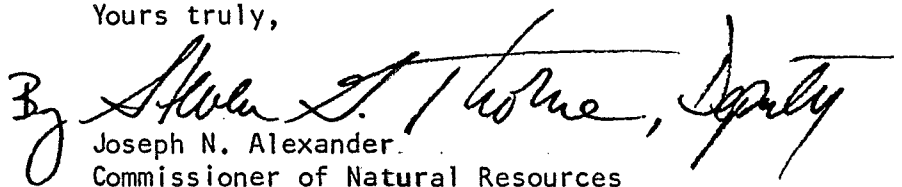
June 17, 1981

These are significant defects in the audit report, but an even greater failing is the unsupported assertion that there is a danger that DNR will not responsibly manage the vast peat and mineral resources of the trust lands. There is not one shred of support for this supposed danger. In fact, the DNR has been a leader in identifying these resources and encouraging their development. This leadership has been asserted in the face of a decade of public opinion unfavorable to mineral development. The Department's work in securing favorable taconite, iron ore and copper-nickel leases has well served the permanent school fund as has its recent development of copper-nickel, uranium, and peat policies. The Department's performance in the area of mineral management has been outstanding and deserves praise rather than the sort of baseless attack contained in the draft report.

Inexplicably, the report fails completely to recognize, much less evaluate, the performance of the two major income producing programs, namely mineral and timber management. The performance of both contradicts the major conclusion of the report that DNR has not adequately managed trust fund lands.

For all of these reasons we believe the draft report must undergo a thorough review and revision before it is put in final form. To assist in this effort the department has prepared the attached report in response to the audit report and to provide supplemental information on the management of trust fund lands. It should be noted that the attached report is not to be considered an exhaustive report on the subject because of time constraints. At the exit conference, we requested that we be provided a month to respond to the draft audit report which was developed by the audit team over a period of several months because of the complexities of the subject and inherent problems that we saw with the report. Therefore, this report has been generated from existing information over a period of 8 working days and a substantial body of additional information is available. We would be pleased to discuss this with you at your convenience.

Yours truly,

By  Joseph N. Alexander
Commissioner of Natural Resources

att.

INTRODUCTION

This report has been prepared in reply to the draft report concerning management of the trust fund lands and the financial management of the Permanent School Fund transmitted to the Commissioner's Office on June 3, 1981.

The Department wishes to raise several questions concerning the conclusions reached in the report; however, in general, the report appears to reflect a preconceived point of view and does not reflect an adequate effort of research and documentation. In an effort to clarify the report, the DNR has undertaken to provide substantial additional information beyond that developed and utilized by the audit team. Where feasible and prudent, new information has been generated to help illustrate and document key points.

The Department welcomes the opportunity to comment on the draft report. It is certainly in the best interests of the public to have future policy development and program action directed by an accurate and complete summary of the status of the trust fund lands and their management.

The general tone of the report appears to advocate the present sale of all school trust fund lands while retaining mineral rights. Most states, soon after admission to the U.S., sold their trust lands at nominal prices, in wholesale fashion, or distributed them less profitably among the counties; and the proceeds were sometimes dissipated or squandered or lent to other funds and never replaced.¹ Minnesota on the other hand, established a perpetual fund that is to be preserved inviolate and undiminished, and the interest and dividends arising from the fund are distributed to the different school districts. (Minn. Const. Art. XI, Sec. 8).

¹John Stone Pardee. "The Children's Heritage. The Achievement of the Minnesota Trust Fund and How it Came About," (1931) p. 16.

In the 1800's and early 1900's, large amounts of school and swamp trust land were sold. The agricultural lands in the southern counties of the state were the lands purchased by the settlers. The northern counties contained land which the settlers did not consider to be valuable and it is these counties today that still have large acreages of school trust fund lands. Around 1920 the sales of land were reduced and attention was directed to timber and mineral values and receipts.

MANAGEMENT OBJECTIVES

Contrary to the allegations of the Office of the Legislative Auditor, we believe that a substantial body of objectives exists for the management of the trust fund lands. While the department has never clearly placed all of these "objectives" into a single document, they are embodied in the Minnesota Constitution, a significant body of legislative acts, etc. which clearly sets forth the "objectives" for the PSF lands.

The Department of Natural Resources, as trustee for the citizens of this state for the management of these lands, has been an active participant in the development of these "objectives" thru the legislative process. As can be attested we have historically been an advocate for wise management of the trust fund lands. While we have not always agreed 100% with enactment of various legislative acts affecting trust fund lands, we, as an administrative agency in state government, have a responsibility for effective administration of the laws enacted.

The Minnesota Constitution establishes basic "objectives" for the management of trust fund lands. The Constitution provides that trust fund lands can only be sold at public sale, exchanged, or be included in school or state forests. The public sales of trust fund lands must be held in accordance with

laws enacted by the legislature; the exchange of these lands must be conducted in accordance with laws enacted by the legislature and with the unanimous approval of the governor, attorney general and the state auditor; and the inclusion of trust fund lands in state forests occurs through laws enacted by the legislature.

The Constitution provides that, within the limitations of the law, the state shall secure the maximum return on the funds arising from the sale of trust fund lands. The legislative auditor's report misinterprets this provision and argues that the goal of management is to "maximize the return on the PSF lands." It is important to recognize the separation of the management of the fund from the management of the land. Land management does not have the same legal restrictions as does the PSF management and separate laws direct the management of the trust fund lands. The Constitution and the legislature have imposed specific and far-reaching restrictions on the sale and use of trust fund lands, and these laws do not always result in a short-term monetary return.

The Minnesota Legislature, from the beginning, has enacted numerous laws regarding state-administered lands, including trust fund lands. Early laws established minimum prices per acre, provided that the lands with the greatest value be sold first, provided that lands most valuable for timber not be sold until the timber had been sold, and reserved the mineral rights on all trust fund land sold.

A brief review of the Minnesota Statutes shows the following legislative directives concerning state-administered lands:

- the creation and management of state forests (M.S. C.89).
- the sale of state timber (M.S. C.90).

the leasing of minerals (M.S. C.93).

-the leasing and rental of lands and natural resources (M.S. Sec. 84.415, 84.63 and 92.50).

-the creation of state parks, monuments, recreation reserves and waysides (by legal description) (M.S. C.85).

-the prohibition against the sale of lands bordering on watercourses (M.S., Sec. 92.45 - enacted in 1923).

-the prohibition against leasing of cabin sites (M.S. 92.46 - enacted in 1973).

-the establishment of wilderness areas (M.S. Sec. 84.43).

-the preservation and protection of wild and scenic rivers (M.S. Secs. 104.31-.40).

These laws establish the objectives for the overall management and use of the trust fund lands. In addition, the Department has established numerous rules and regulations and the Department administrative structure allows for appropriate delegation of the Commissioner's powers to carry out established objectives. Policies and objectives are established and are consistent with the directives received from the Legislature. Formal written policies are developed for specific programs and the mineral and timber policies are of particular concern to the management of trust fund lands to produce revenue.

The Department of Natural Resources manages the trust fund lands in accordance with the directives of the Minnesota Constitution and the Minnesota Legislature. Thus, some divisions of the DNR manage some trust fund lands to increase the monetary yield to the PSF while other divisions manage some trust fund lands to preserve their unique characteristics, as directed by statute.

The Division of Minerals and the Division of Forestry, in accordance with legislative direction, seek to maximize the yield to the PSF in their mineral leases and timber sales. Both divisions have full time economists whose continual goal is to maximize yield.

The Parks and Recreation Division and the Fish and Wildlife Division, in accordance with legislative direction, seek to preserve and protect areas with outstanding scenic, recreational, natural, historical, scientific and similar values. In fact, the Fish and Wildlife Division acquires land with funds raised through license fees, that have these valuable qualities.

The DNR often will play a significant role in the enactment of laws affecting trust fund lands. For example, the iron ore and taconite lease form is specified in Minnesota Statutes, Sec. 93.20. This lease form must be followed except for certain items in the limited circumstances where negotiated leases are authorized. The DNR was actively involved in the improvement of leasing procedures and terms.

The legislature, in 1941, established the legal structure for the issuance and administration of mineral leases including the lease rates, term of leases, lease approvals and the actual form of the lease. The legislation provided for the issuance of 50-year leases with the approval of the State Executive Council at a base royalty rate for state owned taconite of approximately 15¢ per ton of concentrates or pellets. The University of Minnesota had advised the legislature that the base rate should not exceed 10¢ per ton; the Department argued that it should be much higher. No provisions for escalation of the royalty rates due to changes in the economy were provided until the lease form was amended by the legislature in 1951. Accordingly, a large amount of

the state taconite resource was leased during the 1940's as authorized by the 1941 legislature and thus many companies secured 50-year leases without any escalation clause on the royalty rate. The department is still having to live with these early leases at low royalty rates and will have to until the 1990's.

In 1957, based on arguments by the mining industry that the development of taconite processing technology had used up a significant portion of the 50-year state taconite lease term, the legislature enacted a law providing for a 25 year extension of these leases. The extension law would have continued the 15¢ base royalties for the extended period. However, the Department convinced certain legislators to amend the proposed bill on the floor of the legislature to authorize the Department, with the approval of the Executive Council, to renegotiate the royalty rates for the extended period. As a result, extended taconite leases have a royalty rate in the \$2.20-\$2.40 range per ton of concentrates, in 1980 dollars., subject to further escalation due to inflation. The PSF and other funds will, therefore, receive a 15 fold increase in royalty yield during the extended period. Most of these increases will become effective in 1991.

A quick review of the history of the constitutional and legislative directives in regard to the trust fund lands shows the continuous policy of the state to preserve valuable interests for future generations while at the same time looking out for the current generation. The continual increase in the value of land, the new discoveries of minerals in areas not previously explored and the increase in the value of timber easily show that it is not the best or even a wise policy to dispose of all the trust fund lands as soon as possible.

The auditor's draft has identified revenue maximization as the only purpose of the trust fund land management. This goal as stated, should be considered in light of several conflicting factors that are relevant to the need to maximize revenues from the management of public lands.

Revenue maximization from Natural Resources requires careful consideration of an appropriate long-term strategy. Decisions to buy, sell, or develop natural resources must be carefully considered since depletion rates of non-renewable resources and productivity rates of renewable resources will have great effect on the monetary return. Current projections show rising demand for most natural resources and consequently, price increases in real terms are expected. Undeveloped resources are becoming more valuable over time and their values are increasing in excess of inflation.

Past decisions by the legislature and by the DNR administration have reduced the disposal of trust fund lands. The wisdom of this policy is now evident in light of dramatically increasing land and resource values. The present trend appears to reflect a leveling off of the value increases, however, this may be temporary due to the current state of the economy. Comparable rates of return by the investment of the PSF have not been observed and by policy capital growth does not occur in the PSF because all interest is appropriated. Capital growth for the PSF has been very significant for the lands and resources that have been retained in public ownership. Contributions to the total welfare of the state occur whenever industrial development and expansion of the tax base results from greater use of the natural resources. Since the public lands play an important role in such contributions, there has been considerable interest in development of long-term resource strategies and policies that will improve the economy. The public lands contribute to

this development and through public ownership, the state has been able to affect its own destiny through land management policy. The public land ownership has also allowed a certain amount of long-term stability and changes in resource development have been used to ameliorate significant social problems such as the development of taconite to provide employment in depressed areas of the state. This development has also provided greater tax revenues to assist the support of schools. This situation has stimulated the legislature to direct the utilization of trust fund lands and resources for purposes that are not necessarily going to produce maximum rates of return but to provide an optimum resolution to many issues and to implement an optimal long-term strategy. Certainly the auditor's office should be aware of these factors in the development of public policy and although relevant at the time of establishment of the State Constitution, the goal to maximize revenue should be viewed in light of the many competing uses and factors that affect decisions applied to trust fund lands and their management.

Although these trust fund lands were granted to the State for the purpose of producing revenues for the PSF this purpose has been constrained by subsequent actions of the Congress, the State legislature and by other social, economic and environmental considerations. This certainly brings into question any attempt to ignore contemporary needs that may be provided by PSF lands in addition to revenue generation.

Maximization of revenue can only be done if all other considerations are ignored. While the trust fund lands do and have provided substantial revenues to the PSF reasonable pragmatism should be expected in viewing the situation. Much of the trust fund land has limited capacity to generate revenues due to the nature of the land and resources on the land. This natural constraint certainly has impacted the ability of the total land grant to provide revenues.

In addition, revenues can only be generated from resources of value and during Minnesota's economic history there have been periods when much of the remaining trust fund land base was considered without significant value. As recently as 20 years ago, it was common to find tax forfeited lands being sold for as little as \$1.00 per acre and much of the trust fund land had similar value.

Recent trends in resource use and consumption have greatly changed the picture. What was once considered to be valueless swamp land is now being identified as a valuable energy resource. In addition, the continued exploration of Minnesota's minerals resource has continued to identify greater opportunities for mineral development where prior information showed limited value.

Trust fund lands serve the total public benefit by providing recreational opportunities, wildlife habitat, environmental protection, and other general benefits that enhance the quality of life in Minnesota. These other benefits are sought after and often direction has been given through the political process. Various users and interest groups actively represent their views and desires. Without the Department of Natural Resources to actively promote the PSF considerations, the other values and users will receive priority in legislative and administrative decisions. Since revenue maximization is often only possible through development or sale of the land, any conflict with other resource uses must be resolved. In the evolution of philosophy and policy applicable to state lands, there have been many examples of legislative direction to consider contemporary needs in the use of trust fund lands. The auditor must certainly be aware of these changes in emphasis and it seems appropriate that the draft report should have addressed these important constraints on present management.

In summary, the overall objective that emerges from a review of these provisions is to secure the maximum long-term economic return from the trust fund lands consistent with sound natural resource conservation and management principles. While the lands as a body must be managed to produce income, more production is not the sole answer. Other values and benefits from the lands can and should influence the management of the lands. Nevertheless, it is recognized that trust fund lands cannot be permanently devoted to a non-income producing use. Consistent with this objective, not every acre of trust fund land need produce short-term income. Nor should the opportunity to realize a quick profit because of high land values necessarily dictate sale of trust fund lands. The suggestion in the draft report that a continuous evaluation should be completed to determine the profitability of selling land or holding it for long-term appreciation should recognize that the value of certain lands for timber and mineral production will preclude their sale. Other lands may well be sold provided that their contributions to the many various objectives are considered.

POLICIES AND PROCEDURES
TO MAXIMIZE
THE REVENUE FOR THE PSF

Mining and logging are the two activities which have provided the bulk of the corpus of the PSF in the past (80% and 12% respectively). There is no doubt that these two sources of revenue will continue this dominance in the future. The policies governing the mineral and timber management programs of the DNR are clearly designed to maximize revenue to the PSF and they have so functioned. Yet the draft audit report completely ignores these policies and focuses instead on the relatively less significant revenue sources of land sales, lakeshore leases and land exchanges. It appears as though evaluation of mineral and timber policies were so studiously avoided because this would not have supported the sweeping conclusion that "DNR has not established adequate policies and procedures to maximize the revenue for the PSF."

The permanent trust fund was reported to contain a total of \$283,414,034 as of June 30, 1980 by the state treasurer. The contributions to this fund from the sale of land, leases and sale of timber and minerals are summarized in Table 1. It is evident that minerals development has contributed the major share of the contributions to the fund and the total contributions are greater than the present value of the trust. Current revenues continue to grow and as future development of minerals, peat, and harvest of timber occurs, it is expected that these revenues will rise dramatically. As land values continue to rise, the revenues due to leases, easements and utility licenses will also continue to rise. The revenues for the last five fiscal years are summarized in Table 2.

Mineral Management

The mineral policy of the state, as reflected in its statutes, encourages the development of mining with due consideration of the effects of mining in the environment. Commencing with the first iron ore mining laws in 1889, the state has been issuing mineral leases. Today approximately 50% of the land leases for iron ore and taconite are school trust fund lands; and approximately 80% of the lands currently under lease for copper, nickel and associated metals are school trust fund lands.

Throughout the 1940's and 1950's, the state held public sales of iron ore prospecting permits, and 247 of those permits were converted to iron ore or taconite iron ore mining leases. Six copper-nickel lease sales were held from 1966-1973. In total, 2,143,923 acres of state-administered mineral rights were offered for copper-nickel leasing; and this resulted in the issuance of 1,044 leases covering 425,313 acres. A copper-nickel lease sale has not been held since 1973 due to a Copper-Nickel Study of the EQB; we are currently working on amending the royalty provisions of the state copper-nickel lease and hope to have a lease sale within the next year. A large percentage of these lands offered for leasing have been permanent school fund lands.

As previously indicated, significant revenues have been generated for the PSF thru the mineral leasing activities of the department. Although ignored by the auditors, it should be noted that the future revenues from mineral leases will be substantially increased thru actions already taken by DNR and the Executive Council.

LEGISLATIVE REFERENCE LIBRARY
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The 1941 taconite lease law provided for a royalty rate of 5¢ per ton of crude ore without an escalation clause. As authorized by the 1957 lease extension law which authorized the extension of taconite leases for an additional 25 year period, the department conducted extensive negotiations with a number of mining companies on new lease terms to be effective during the extended lease period. These negotiations resulted in recommendations by the DNR to the Executive Council for the extension of a number of taconite leases. The Executive Council, after extensive evaluation and review, approved the terms of these lease extensions. Of interest is the fact that in one instance the Executive Council chose to hire a consulting economist to review and evaluate the DNR recommendation and he subsequently concurred in the DNR recommendation without change. All of these lease extensions provide for substantially increased royalty rates, special advance royalty payments, favorable escalator clauses, guaranteed performance requirements, etc. These lease extensions, which begin becoming effective in 1991, will significantly increase income to the PSF.

To illustrate the significance of these previous actions, the following two examples are provided. The Erie Mining Company lease extensions were approved by the Executive Council in 1968. During the extended term of these leases, the state will earn over \$245,000,000 (based upon 1981 dollars which will be escalated). The mineral lands involved are: university trust lands, 46%; school trust lands, 28%; and tax forfeited lands, 26%. The Ontario Iron Company lease extensions were approved by the Executive Council in 1973. During the extended term of the leases, the state will earn over \$260,000,000. The mineral lands involved in this instance are: school fund lands 92%; and tax forfeited lands, 8%. Thus, thru these two actions, the PSF is expected to earn in excess of \$300 million. This income, generated in 25 years, is greater than the total amount earned to the PSF from all sources since statehood.

In addition to the increased income from taconite leases, significant income potential exists from copper-nickel and associated base metals and Minnesota's vast peat resources. While the auditors mentioned the magnitude of the copper-nickel resource in a 13 square mile area of the Gabbro Complex in northeastern Minnesota, they failed to recognize the potential royalty income that will be generated for the PSF from existing state mineral leases in that area. If economics permit the development of the proposed AMAX project in that area, the income from these state leases is expected to yield approximately \$250,000,000 (1979 dollars) during the remaining term of these leases.

In determining the tracts of land which will be subject to a public lease sale, the Department considers the areas which the DNR determines as having mineral potential and the areas requested for leasing by mining companies. The DNR makes every attempt to select areas in which more than one company wishes to lease in order to generate competitive bidding and, therefore, higher royalty to the trust funds and tax-forfeited funds. Also, once an area is proposed for leasing, the individual tracts are reviewed by the division's environmental section, other divisions of the DNR, State Historical Society, Pollution Control Agency, Natural and Scientific Area Advisory Committee and others. Environmental groups are also notified and given an opportunity to review.

The Department has completed a peat policy and management study which is now being implemented. This study has been presented to the various natural resources and energy committees of the legislature for their review. The Department has an active peat inventory program, funded primarily by federal funds. This data is being "computerized" and mapped. Although this inventory is still in progress, figures are available from MLMIS computer printouts and show that approximately 25% of the peatland is trust fund land (see Table 7).

During the past ten years, the Division of Minerals has established and subsequently expanded a unit specifically for Evaluation of Mineral Potential. This unit provides better input in land management decisions (including trust fund lands) and promotes exploration and mining development of these lands. The mineral potential evaluation unit has developed geochemical techniques, added geophysical capability, expanded analytical laboratory capability and, beginning this year, has secured funding for and implemented a test drilling program to assist in evaluating the mineral rights administered by the Department. A limited drilling program this year in a largely unexplored area of the Duluth Gabbro Complex indicated the presence of some mineralization which warrants further exploration and has brought about interest from companies not previously exploring in that area. The work of this unit will be further expanded during the forthcoming biennium.

Four years ago, the Division of Minerals was also able to establish a mineral economist position to assist the mineral lease section on a full time basis. Cash flow computer models have been established, in cooperation with the Department of Revenue, to help evaluate mineral potential and possible mine development proposals, review royalty rates and royalty escalation methods, etc. The entire focus is to keep abreast of mineral economics and increase yield from managed lands. Changes in the national and world iron/steel industry, such as locations, markets, technology, energy sources and shifts toward iron ore imports, can affect Minnesota's future role as an iron ore-taconite producer and therefore yield to the PSF and other funds from royalties. Since iron ore and taconite are and will continue to be the major source of revenue to these funds, the DNR and Department of Revenue proposed development of an Iron Ore Econometric Model. This request was supported by the Governor, but was not funded by the legislature and we will continue to seek support for such a model.

This mineral policy, the methods in determining areas to offer for sale, and the continuing work of our evaluation section shows the DNR has "objectives" in managing school trust fund lands and does not have "haphazard" sales of land. All of this was explained to the auditor, but the report does not reflect this fact.

Forest Management

The Division of Forestry has been delegated the responsibility for timber management of trust fund land. The Division is responsible for the protection and management of the forest resources and has supervised all timber sales and forest development on trust fund lands. The sale of timber has returned substantial amounts of money to the PSF and funding for the Forestry program from the general fund and federal sources has increased by 100% since 1979. This will result in substantial improvements in the return to the PSF by timber production both in the short and long run.

The recent efforts by the Department to take difficult steps to improve timber revenues have been ignored by the auditors. During the last session, a major revision of the timber sale laws was accomplished which represents the resolution of a major controversy that has been going on for the last several years. This legislation will enable DNR to sell a greater percentage of timber at public auction and to reduce its reliance on informal (non-competitive) timber sales. Since public auction sales generally produce higher stumpage prices than informal sales this will have a significant positive impact on PSF revenue. During the last ten years the base stumpage rates have been raised by 350 percent.

The Division of Forestry has recently embarked on a greatly expanded program of management intensification. A full time staff economist has been employed and the program plans have been developed using revenue generation and rates of return as planning criteria. Priorities are being established using assessments of potential productivity and the program has been designed to bring the state owned forest land into production using the best possible economic alternatives.

Base stumpage rates have been increasing, particularly in the last three years. The Division has used market evidence in establishing these rates and has made great progress in generating a greater return from the sale of the state's timber in spite of the opposition expressed by timber producers and the processing industry. Recognition and appreciation of this situation is not evident in the draft report and should be considered prior to any final actions.

Sale of Land

The original grant of trust fund lands total 8,293,702 acres. Of that total, 5,772,702 acres have been sold or transferred for other uses in the past and these sales have provided \$25,775,578 to the PSF. Current land sales have been nominal since policy direction toward retention of these lands has been established by the Legislature. Several laws have been passed to establish this policy. For example, M.S. 85.011 prohibits the sale of land inside state park boundaries. M.S. 92.45 prohibits sale of land bordering public waters and the continued appropriation of funds for the land acquisition has reflected a policy of expansion of state ownership.

Land sales have continued to be a part of DNR management and recent sales are summarized in Table 5. The public has the opportunity to request lands be put up for sale and when such requests are received the request is reviewed and a decision is made. All refusals of these requests have been made because the Department has determined that these lands are needed for public purposes or protection of the PSF goals. Also, many of these requests are for the better land that are more productive and assessible and are the lands that have the greatest value growth and will return a significant rate of return to the PSF.

The sale of state land is not "haphazard." On the contrary, for many years the DNR has pursued a policy of not selling substantial acreages of trust fund, as well as other, lands. This policy has proven to have been an extremely wise choice, since the value of trust fund lands have increased at least ten-fold since the 1930's. Lands that are sold are those which have been carefully reviewed and have been determined not to have significant long-term timber, mineral or other natural resource values. However, the Department has recognized that it is time to review this policy and has requested and received nearly \$500,000 from the 1981 legislature to do a complete state land suitability analysis and develop a policy and a long-term plan for the adjustment of state land ownership, including the sale of such lands where that is the best land management alternative.

The allegations that the Department has not adequately supported legislation to correct the preposterous terms for the sale of trust fund lands are erroneous. This past session, the Department actively supported House File 253 and the failure of the bill to pass causes great concern. In the absence of reasonable interest rates, it appears inadvisable to proceed with sale of trust fund lands that are continuing to increase in value. The issue of the length

of contract is perhaps better viewed in combination with the interest rate. If interest rates may be set at current money market levels, the long-term return to the PSF would be significantly greater than the relatively low return recently produced by investment of the PSF. Since the bill will be available for review once again, there will be an opportunity to modify the bill if desired. Perhaps the auditor may use his influence to provide this information to the legislative committees. The Department will continue to support this change in legislation and it will certainly benefit the PSF.

Leasing Lakeshore Land

The Department has had a long standing program of leasing lakeshore for private use. This program was authorized by M.S. 92.46, and as directed by M.S. 92.46 Sub. 1A, which was enacted in 1973, no more of these leases may now be issued. The auditor's statement of a potential loss of \$250,000 needs additional clarification. The estimate was derived for the total lakeshore leasing program not for the trust fund lands only. The DNR currently leases 1,602 sites for this purpose on trust fund lands (Table 2).

The DNR is concerned that the rates for these leases are too low. However, it is important for everyone to realize that this has been an historical problem that DNR has been actively resolving in stages since the early 1970's. At that time, the rates were raised from an average of \$25 to \$150 per lease and even more significantly the DNR began to establish rentals on the basis of appraised value rather than as a flat rate. At that time, reappraisals were required every ten years upon renewal of the lease. These very significant changes met strong opposition both in and out of the legislature. The current lease rate is determined at five percent of the appraised value per year and the last appraisal

was made in 1975. Lease renewals made subsequent to 1980 will all require reappraisals at five year rather than ten year intervals. Clearly the appraisals need to be reviewed and adjusted and the department has begun to take steps to review the situation and begin the appraisal process using the accelerated program approved by the LCMR.

Finally, we question the assertion that the state has lost an estimated \$250,000 per year as a result of below market value rentals. Their figure is based on the unsubstantiated assumption that lakeshore lots leased by the DNR are equivalent in average value to lots leased by the United States Forest Service.

Special uses and leases other than lakeshore leases, are granted routinely by the Department for a wide variety of purposes. Lease rates are determined for these purposes using market evidence where feasible and all grants of easements and licenses are made using an appraisal of current market value (Table 2) Special considerations are made in this program for trust fund lands and no leases or easements are granted without payment of the appraised value. Share-crop agreements are not allowed on trust fund lands in an effort to continue the policy to generate revenue for the PSF. The special use revenues have been summarized in Table 2 along with other revenue sources. It is clearly evident that the leases and special permits generate substantial revenues to the PSF each year.

Land Inventory

The DNR maintains records and inventories of all leases, land sales, timber sales and mineral leases. The auditor's report has identified the lack of an inventory as a major problem when in fact, these records are available. These

records are summarized in the tables contained in this report and should provide the information required to evaluate the rate of return.

The DNR has had most of the land records available in a computer format for about ten years. Additional effort to put more of these records on computer files is an ongoing part of DNR management and an accelerated project has been funded for the next biennium to put all leases, licenses and easements on the computer.

The auditor was provided with much of the information necessary to determine the rate of return and we have provided some additional information in this report. The attached tables concerning minerals were specifically provided to the auditor and should have been adequate for the needs of the report. A close review of the tables attached to this report is recommended and, if additional information is required, the department will be able to provide it on a timely basis.

Land Exchange

The draft report ignores several complexities that limit the usefulness of land exchanges as a means of increasing PSF revenue.

The DNR has had a land exchange program for many years and currently has many individual cases in the process. The goals of the land exchange program are varied and efforts are made to use this program to consolidate ownership and gain efficiencies where possible. Most of the current land exchanges have been initiated at the request of the private sector and they are all approved by the land exchange board as specified by Art. XI, Sec. 11 of the Minnesota Constitution when completed.

The Department has established a task force to review present land exchange procedures and to make recommendations to improve the process. The task force report is near completion and the land exchange program should be greatly improved as a result.

The draft report has recommended that land exchange be used to consolidate ownership to improve management efficiency. While this is an important consideration, there are also advantages in having a dispersed ownership for minerals and wildlife purposes and consolidation per se cannot be the overriding goal of public land management. Consolidation will not reduce administrative costs for the PSF, since the PSF does not support administrative costs and consolidation will not improve revenues of the PSF.

The department has recognized the need to accelerate the land exchange program and has received approval from LCMR for more support for this program. The Department has also initiated discussions with Lake County and the Chippewa National Forest to begin work on a general program of land exchange. Other land management agencies and industrial owners will also be contacted in the future as the accelerated land exchange program develops. A continuing problem exists in respect to "exchanges" of trust fund land for tax forfeited land. The constitution only allows exchange of trust fund land with the federal government and private landowners. Substantial tax forfeited land areas administered by the counties are found mixed within the trust fund land. Recent legislation authorized "transfers of title" between state and local governments in the same manner as land exchanges except that trust fund land must be condemned free of the trust before the transfer can be made. Therefore the usefulness of this new mechanism has been seriously limited by the lack of funding for this purpose.

Administrative costs

The draft audit report goes to great lengths in an attempt to demonstrate that the PSF is not getting a fair return from the trust lands and that the DNR is not adequately compensating the PSF for the use of trust fund lands. Underlying this assertion by the auditor is the erroneous assumption that trust fund land can take care of itself without any overhead costs whatsoever. In addition, the auditors were apparently unaware that the trust fund is not paying its fair share of the costs of managing and developing the trust fund lands. The PSF, in fact, is heavily subsidized by the general fund. For example, since fiscal year 1976 the general fund and other non-PSF funding sources have contributed over \$20 million for mineral and forestry management and development (see Table 3). In that same period, the PSF has contributed \$500,000 per year to forest management and development and none to minerals. Several attempts have been made to rectify this situation, however, an opinion of the Attorney General dated October 11, 1955 has determined that none of the costs of managing minerals may be paid for out of the PSF. As a consequence, administration costs are not paid by the fund receiving the benefits and in fact, the PSF has effectively been subsidized by the general fund. Except for certain forestry ^{programs the DNR does} not receive any of its operations or management costs from PSF funds. One-third of the mineral rights managed by the Department are trust fund lands and one-fourth of the peat lands are trust fund lands.³ Applying these percentages to the budget of the Division of Minerals of the DNR, for the period of 1976-1980, shows that the management costs for PSF minerals rights entirely funded by the general fund, were \$2,200,000. The mineral management program has provided a yield of \$7,575,146 for the same five-year period of 1976-1980 (Table 3).

³This is in fact a conservative figure since 50% of the existing iron ore and taconite leases and 80% of the existing copper-nickel leases are trust fund lands.

FINANCIAL MANAGEMENT OF PSF

A review of the alleged errors in financial management shows that the state has not lost investment income and that all stated losses are recoverable. Also, complexities of the statutes combined with accounting requirements for handling advance royalties should be more fully understood by the auditor and reflected in the report.

The workpapers of the Legislative Auditor contain a section wherein the auditors attempted to calculate the amount of interest income lost to the Permanent School Fund (86 Fund) because receipts were not transferred from "clearance" or "suspense" accounts in a timely manner. Their calculation of the lost interest income is summarized as follows:

	Estimated Amount of Lost Interest Income (Based on 21 month period)	Fund Earning Interest
State Forest Suspense Accounts (Permanent School Fund) (Permanent University Land)	\$223,654	20 Fund
Mining Advance Royalty	174,510	61 Fund
Advance Royalty	8,882	10 Fund
 Total	 \$407,046*	

*Based on annual percentage rate for short-term investments of 12.4%.

It is important to note that the receipts deposited by the Department into the 20, 61 and 10 Fund "clearance/suspense" accounts during the period in question actually earned an estimated \$407,046 of investment income for the State of Minnesota. It is wrong to conclude that the State lost this significant amount of investment income because receipts were not cleared in a timely manner. In fact, all investment income generated from receipt deposits in the 20, 61 and 10 Fund "clearance/suspense" accounts is credited to the State's General Fund. An argument could be

made from a financial management viewpoint that the receipts held in the "suspense/clearance" accounts yield higher average rates of return than those contained in the Permanent School Fund. The average rate of return on short-term investments at the beginning of this year was 12.40% compared to 8.39% for the Permanent School Fund. Based upon the preceding, it can be alleged that the Permanent School Fund will receive a higher rate of return from the receipts held in the "suspense/clearance" accounts rather than in direct deposits.

Because the investment income generated from the "clearance/suspense" accounts for the period in question has not been credited to the Permanent School Fund, the Department takes the position that the Permanent School Fund should receive the interest earned from the General Fund to allow for reimbursement. It should be noted that the amount of interest calculated by the auditors is an estimate only and that the actual Permanent School Fund earned interest may differ.

In order to ensure that all future investment income generated from receipt deposits made to the State Forest Suspense Accounts is realized by the Permanent School Fund, the Department has initiated action to move the suspense accounts directly into the Permanent School Fund.

As you are aware, M.S. 16A.125, Subdivision 5, Paragraph 2, states: "As soon as practicable after the end of each fiscal year, beginning with the year ending June 30, 1956, the commissioner of finance and the state treasurer shall distribute the receipts credited to said state forest suspense account during such fiscal year as follows:

- (1) The total costs incurred by the state for the purposes aforesaid during such fiscal year and certified as hereinbefore provided shall be transferred to a special account to be known as the state forest development account.

- (2) The balance of said receipts shall be transferred to the state trust funds concerned in accordance with their respective interests in the lands from which the receipts were derived."

In past years the Department has followed the provisions of this statute and prepared required cost statements for State Forest Trust Fund lands and initiated accounting documentation on an annual basis to effect the transfer of receipts as outlined in paragraphs (1) and (2). However, as we have earlier mentioned, the State Forest Suspense Accounts are currently established in the 20 Fund rather than in the 86 Fund, and therefore investment income generated on these receipts is credited to the General Fund. It is again important to note that the State of Minnesota has not lost investment income because of this accounting problem. Beginning July 1, 1981, the Department has requested that the State Forest Suspense Account Fund designators be changed from the 20 Fund to the 86 Fund. This will allow for direct credit of all investment income to the Permanent School Fund.

In regard to the mining advance royalty interest "loss" to the Permanent School Fund, the statement is deceptive and does not explain, as we did to the auditor, the reason why over a million dollars could not be distributed to the appropriate funds. This account, more properly called a clearance/suspense account, is basically established for the special advance royalty payment.

The need for a special advance royalty holding account arose because the Erie Mining Company and Ontario Iron Company Extension Agreements (which were negotiated between the state and mining companies and approved by the State Executive Council) provide for special advance royalty payments. These royalty payments cover a combination of tax-forfeited leases, school and swamp trust fund leases and university trust fund leases. Since the special advance royalty payments are recoverable against future shipments of ore, it is not possi-

ble to distribute the money to the proper fund until shipping occurs.

The quarterly minimum rental payments and royalty payment are also deposited in this account. However, through November of 1980, it is our understanding that these payments were transferred to the appropriate fund within 10-14 days after deposit.

Therefore, approximately \$180,000 of the \$407,046 of investment income appears to be mostly attributable to the amounts of special advance royalty payments which could not be transferred to an appropriate fund. Although this account deserves special treatment so that the represented funds receive their representative share of interest, the Department of Finance appears to have classified this (61 Fund) money as "state treasury funds not currently needed," and the interest is credited to the General Fund.

Accounting mechanisms necessary for determining interest distribution from the special advance royalty holding account will have to be devised and discussions have been held on this matter. The department is vitally interested in insuring that the appropriate funds are credited from this account but, as stated earlier, the transfers cannot be made because the appropriate distribution is unknown until future ore shipments are made. We wish to point out however, that the special advance royalty provisions is again illustrative of the department's continuing efforts to maximize revenues by accelerating payments to the state on future ore shipments.

As we indicated in our recent response (December 5, 1980) to your audit of the financial management operations of the Department for fiscal year 1980, we concurred that there are weaknesses in the financial management functions for a number of reasons: staffing, accountabilities, training, policy/proce-

development, complexity of funding sources and revenue accounting, accounting structure, etc. The Department is prepared to take actions necessary to correct these deficiencies and has already initiated the following actions:

- I. Established a DNR Financial Management Task Force consisting of Geri Benting, Assistant Commissioner, Department of Finance; Dave Johnson, Agency Coordinator, Department of Finance; Dick Krueger, Agency Controller, Department of Finance; Gene Gere, Assistant Commissioner, Department of Natural Resources; and Wayne Frankenberg, Financial Management Bureau, Department of Natural Resources.

Task Force Objectives

- A. Continually review and further define actions to be taken for improvement in financial management.
- B. Review status of actions.
- C. Determine assistance that the Department of Finance can provide in undertaking specific actions both from within the Department of Finance and other state agencies.
- D. Establish professional fiscal/personnel liaison positions in each division.

- II. Established a Revenue Accounting Task Force chaired by Joe Kurcinka, DNR Research and Policy Section; John Bouthilet, DNR Revenue Accounting Supervisor; representatives from DNR divisions that generate substantial revenues; and Department of Finance representative, Roy Muscatello.

Task Force Objectives

- A. Evaluate the current revenue accounting system.

B. Determine current deficiencies, problem and unmet needs.

1. Use of Regional Depositories
2. Advance Royalty Accounting
3. Clearance Accounts
4. Accrual Accounting
5. Game and Fish Fund Statements
6. Function of Financial Management Bureau
7. Control of Receipts

C. Recommend a new revenue accounting system for implementation.

III. Approved an interim reorganization of the Revenue Accounting Section in the Bureau of Financial Management and placed the function under the direct control and supervision of an Accounting Officer, Principal.

We believe these management actions will greatly strengthen our financial management function.

COMPENSATION FOR USE OF TRUST FUND LANDS

The draft audit report grossly exaggerates the extent to which trust lands have been devoted to non-income producing uses and ignores the fact that in nearly all cases where this has occurred, such as state parks, it has been the result of legislative action. Many of the DNR managed units mentioned do not impose a limitation on the income producing uses of the land. This is particularly true of state forests which are managed on multiple use principles which provide for both mining and timber production as well as other uses. Also, the inclusion of trust lands in state forests is expressly permitted by Article 11, Section, 11 of the Minnesota Constitution. In state parks, state wildlife management areas, and public accesses where income producing uses are limited, the DNR has consistently tried to compensate the Permanent School Fund thru condemnation of the trust fund lands. In fact, during the 1981 legislative session, the department sought and received authority to spend up to 20% of its land acquisition funding for parks and public accesses to condemn trust fund lands.

Efforts to reconcile conflicts among competing users of the public land have been a routine part of DNR management. One long standing problem has been the dedication of trust fund lands to non-income producing uses particularly for State Park purposes. Land use allocations of this nature are made by the legislature. State parks, state forests, trail and Wild and Scenic Rivers are designated by statute. The 9,717 acres of trust fund lands found inside the 200,000 acre state park system were therefore designated for that use by the legislature. In 1978 DNR requested legislative approval to acquire these trust fund lands for park purposes. This proposal was reviewed by the LCMR in November of 1978 and the request was denied. As already stated, this request was recently renewed with better results.

Additional efforts to condemn the trust fund lands in other units have been an ongoing part of DNR management particularly for trust fund lands inside wildlife management areas where the department has condemned 47,626 acres at a cost of almost \$1,000,000. Trust fund lands have been acquired as funds permit and several such condemnations are in process at the present time (Table 6). One noteworthy example is the condemnation of almost 33,000 acres in Voyageurs National Park at a cost of \$4.7 million.

The Department has long recognized its responsibility to the PSF and has made repeated efforts to compensate the PSF for these non-revenue uses. Since the Department must utilize general fund monies to reimburse the PSF, there is often considerable reluctance by the Legislature to appropriate general fund or bonding monies to compensate the PSF. Such appropriations do not increase the total return to the public but simply increase the amount of a particular dedicated fund. The legislature has also been reluctant to increase dedicated funds or the dependence of programs on dedicated funds. Consequently, the apparent answer to these conflicts in priorities and land use must be resolved by the legislature. The Department does not have the authority to resolve this problem. The Department suggests that this general issue should be brought before the appropriate leadership of the legislature and the DNR would strongly support such efforts.

The auditor erroneously implies that trust fund lands found inside state forests and wildlife management areas do not generate revenue to the PSF. The use of trust fund lands for state forests is expressly authorized by the constitution and trust fund lands inside state forests are managed to provide revenue for the PSF and during FY 1980, \$1,130,727 was earned from the sale of timber inside state forests on trust fund lands (Table 2). Likewise, lands within wildlife management

areas are still available for revenue generating purposes such as timber sales and agricultural leases. Even mining is not precluded in wildlife management areas.

Approximately 100,000 acres of trust fund lands are found within the BWCA. Again the DNR has recognized the need to consider the PSF in this issue and has actively participated in the efforts to resolve this problem. Testimony has been provided to appropriate committees and the review done by the constitutional study commission accepted many DNR recommendations. Subsequent actions by the U.S. Congress and the Minnesota Legislature have established the present policy.

During the late 1960's the Senate Natural Resources Committee held hearings to review the Department's management of trust fund lands in the BWCA. The Division of Minerals testified regarding its mineral management - pointing out the wilderness recognition, protection policy and management guidelines that had been established for that area by the State Legislature throughout the years. The Department pointed out that if the Legislature wished a different policy for the area, such as mineral development, etc., they should, in the face of existing legislative guidelines, enact legislative direction for such a change. No changes were enacted at that time, but in the mid-1970's the Legislature enacted a prohibition of mining on state lands and the use of state lands in connection with any other mineral development within the BWCA except in the case of a National Emergency. In regard to the trust lands involved it was felt by the Legislature that the reservation of 100,000 acres of the 2,500,000 acres of trust lands for development in the case of a national emergency was not a violation of the trust or bad management practice. It should also be remembered that unless the state wishes to relinquish sovereign authority in that area of the state to the Federal Government, it needs a proprietary base for many of its arguments. Also, the latest federal Act related to the BWCA gave

it wilderness status under the 1964 Wilderness Act. This Act provides that such wilderness areas can periodically be expanded in 5,000 acre increments. If the state wishes standing for meaningful input on such expansions, which could involve additional trust fund lands, it appears advisable to retain these trust lands within the BWCA.

The trust fund land acreage of nearly 100,000 acres in the BWCA will no longer be available for timber harvest; however, the improved development of trust fund lands outside the BWCA should off-set this loss of revenue generation. The end result of this expanded and improved forest development will be greater revenues to the PSF when future harvests of timber on trust fund lands occur that are the product of the current intensification program. The total amount available for this purpose will be over \$40,000,000 during 1979 through 1990.

In summary, the department has long recognized the need to compensate the PSF when trust fund lands are permanently dedicated to non-income producing uses. It has a record not only of raising the issue with the legislature, but also of being instrumental in compensating the trust in an amount of almost \$6 million (see Table 6).

CONFLICTING PRIORITIES

The draft audit report argues that since DNR has responsibilities other than management of the trust fund lands to produce income, the danger exists that it may attempt to further these non-income producing purposes to the detriment of the PSF. Of course the problem of reconciling conflicting goals is inherent in multiple use land management. It is just as real when the choice is between wildlife management and the development of trails as it is between the preservation of a stand of virgin pine or its harvest. The key to handling these kinds of potential conflicts is to recognize them and to develop policies which give clear standards for their resolution. This has been done in this case. As previously pointed out, the department has attempted to consistently adhere to the policy of compensating the PSF for lands permanently dedicated to non-income producing uses. Therefore, the report has not demonstrated that this potential has ever operated to the detriment of the PSF. Although there are trust fund lands in some state parks and other units within which some uses are restricted, the department is making progress toward condemning these remaining lands free of the trust. Also, the various existing mechanisms of external review, as will be subsequently discussed, operate to insure that this course of action continues.

Natural resources allocation decisions are inherently controversial. Land use allocations and decisions must resolve the many conflicts that emerge and that are expected when such decisions are made. The original land grants to the state were made without consideration of the resources and values found on the land and consequently the lands granted represented a full variety of Minnesota's resources. Nearly all of the land suitable for agriculture has been disposed of in the past and the remaining lands are suitable for a variety of uses. Classification of these remaining lands according to their best use for the benefit of the public has historically provided guidance for the DNR's management program. Land

classification has attempted to designate which lands should be retained in public ownership and also what these lands are capable of being used for.

Many factors are considered in land classification efforts. The major emphasis has been placed on the characteristics of the resources found on these lands and although not directly stated the consideration of the PSF has been given considerable weight in this process primarily through the traditional thought and philosophy of the decision making of the DNR. Several instances could be cited where decisions to retain land were based on the long-term welfare of the trust fund, particularly where ~~minerals~~^{minerals} are concerned. Such decisions to retain these lands have proved to be wise and will ultimately result in the goal to maximize the return to the PSF. Land classification then should be considered as one of the primary vehicles where the total benefits to the public and the PSF are considered.

Reference to apparent problems with the DNR land classification have been taken out of context in the draft report. The University of Minnesota study cited in this document was initiated by the DNR to compare the DNR and county land classification procedure with computerized land use models developed and used by the University for land use planning.

The reference to apparent problems with the DNR land classification procedure appears in the introduction to the fiscal study report document and does not in fact reflect the final study findings. The final study findings state that a comparison of the University computerized land use maps with the DNR completed classification maps "reveal they are nearly identical" as to classification. The "final maps show that 97.5% of all DNR-administered parcels maintain the same classification in both schemes" (page 13 DNR Land Use Classification Report - #5018, Minnesota Land Management Information System, July, 1975). This indicates that the

DNR classification system was conducted in a consistent, systematic and standardized manner such that the results could be replicated through use of sophisticated computer modeling techniques employed at the University.

The Department, in fact, is continuing to upgrade its land classification abilities. The DNR has just received a legislative appropriation to undertake a more sophisticated land classification and allocation process during FY 82-83 which will determine the best allocation and use of DNR administered lands.

EXTERNAL OVERSIGHT

The draft report concludes that "DNR should not have total responsibility for the Management of the PSF" and that "some management oversight be established outside the organizational structure of the Department of Natural Resources". First, the DNR does not manage the PSF; it manages the trust fund lands, which are not part of the PSF. Secondly, extensive external oversight of the management of the trust fund lands already exists.

The legislature, through numerous legislative acts, review of requested reports, and hearings has provided review and policy direction on all lands, trust fund lands included. The roles of the State Executive Council, Land Exchange Board and State Board of Investment also show that the Department is not the "sole decision making authority" over the use of PSF lands and that there is "outside oversight." Thus, we question the auditor's recommendation, not because we believe there ought to be no oversight, but rather because existing oversight is adequate.

Although the DNR has the primary responsibility for the supervision and management of trust fund lands, there is considerable oversight and review of decisions made by the DNR. All land exchanges are approved by the land exchange board, which consists of the Governor, Attorney General and State Auditor. The respective Natural Resource Committees and appropriation committees review DNR policy and programs and the accelerated natural resource programs are funded and provided overview by the LCMR. All leases and sales of PSF lands or products thereon are approved by the Attorney General. In addition, select committees of the legislature have been formed to review specific issues and the Legislative Auditor audits

DNR programs routinely. These various oversight authorities have ample opportunity to review DNR decisions and to provide consideration for the PSF in their oversight actions. As stated previously, the DNR has brought PSF issues to the attention of these oversight authorities with mixed results.

The Executive Council must approve any timber sale in excess of \$20,000. The Executive Council consists of the Governor, Lieutenant Governor, Attorney General, Secretary of State, and State Auditor. The State Board of Investment, which manages the permanent school fund, consists of these same state officials (except for the Lieutenant Governor). This oversight by the constitutional officers of the state has been ignored entirely by the auditor's report.

The State Executive Council also has an active role in the management of the state-administered mineral lands. The issuance of any mineral lease requires their approval. In addition to making the final decisions on issuing leases, the Council questions and analyzes information provided by the DNR, and requests certain actions be taken (such as our current project of amending the royalty rate provisions of the state copper-nickel lease).

Once the existence of these several means of oversight is recognized, another weakness of the auditor's report becomes apparent. Because the report ignores existing oversight mechanisms altogether, it avoids the tough questions of what is wrong (or right) with these mechanisms and what changes, if any, are needed.

These questions must be carefully analyzed, for an ill-considered change could very well weaken rather than strengthen the management of the PSF lands. Yet the report is silent in this regard.

TABLE 1

PERMANENT SCHOOL FUND
ACCUMULATED VALUE OF INCOME BY SOURCE

	<u>Dollars</u>
Minerals Leases	130,334,627
Occupation Tax	105,259,675
Timber Sales	34,833,253
Land Sales, Leases, etc.	<u>25,775,578</u>
TOTAL	296,203,133

PERMANENT SCHOOL FUND REVENUE BY SOURCE

Source	Number of Actions	School Trust Acres	FY 76	FY 77	FY 78	FY 79	FY 80	TOTAL
Leases:	<u>Current</u>	<u>Current</u>	<u>Dollars</u>					
Agriculture	148	5,142.54	11,652	11,489	12,449	14,660	15,606	65,856
Commercial	147	4,296.42	14,620	11,887	15,969	18,939	17,937	79,352
Earth Materials	59	558.33	41,189	60,045	104,409	87,859	119,035	412,537
Governmental	115	*	1,138	1,475	2,476	2,578	2,249	9,916
Hunting Cabin	54	27	685	705	685	650	2,995	5,720
Lakeshore	1,602	801	64,735	96,025	146,913	190,172	206,783	704,628
Miscellaneous	197	939.62*	9,032	8,265	7,836	5,069	5,211	35,413
Squatter	78	44.43	1,600	1,625	1,610	1,560	465	6,860
Bill Board	0	0	0	0	0	86	0	86
Peat			738	738	738	1,276	320	3,810
Utility Licenses	2,970	*	97,320	23,865	57,247	135,339	51,817	365,588
	<u>5 year Total</u>	<u>5 year Total</u>						
Easements	146	449.29	4,376	9,571	5,811	6,882	20,914	47,554
Land Sales	6	2,476.35	83,189	46,918	63,591	36,187	53,563	283,448
Condemnations	**	**	348,269	1,550	82,888	440,693	215,038	1,088,438
Timber Sales								
Inside State Forests	**	**	917,476	1,154,401	1,015,900	1,157,449	1,130,728	5,375,954
Mineral Leases	**	**	1,053,409	1,318,185	1,131,946	1,403,688	2,667,918	7,575,146
Miscellaneous Revenue	107	**	342	106	452	820	1,960	3,680
TOTAL			2,649,770	2,746,850	2,650,920	3,503,907	4,512,539	16,063,986

* Incomplete as documents contain many thousands of descriptions being used as rights-of-way for snowmobile, ski, utility and access purposes.

** Incomplete data-numbers not available at present.

TABLE 3

PERMANENT SCHOOL FUND LAND

ADMINISTRATION, PROTECTION, AND MANAGEMENT COSTS BY DISCIPLINE

Discipline	FY 76	FY 77	FY 78	FY 79	FY 80	TOTALS
Minerals	302,280	302,280	535,058	540,937	529,167	2,209,722
Forestry						
State Forest	1,771,584	2,168,059	2,500,000	2,512,065	4,299,824	13,251,532
Outside State Forest	1,008,418	1,237,604	1,420,952	1,430,120	2,447,705	7,544,799
TOTALS	3,082,282	3,707,943	4,456,010	4,483,122	7,276,696	23,006,053

Table 4-A

STATE OF MINNESOTA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINERALS

STATE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981

SAINT LOUIS COUNTY

63

<u>Property</u>	<u>Fund</u>	<u>Lease No.</u>	<u>Description</u>	<u>Issued</u>	<u>Expires</u>	<u>Present Lessee</u>	<u>Operating Company</u>
Wanless	School	2038	E $\frac{1}{2}$ -SE, 16-58-19	9/07/46	1996	Shenango Furnace Company	Shenango Furnace Company
Woodbridge	School	2054	E $\frac{1}{2}$ -NE, 16-58-19	6/09/48	1998	Shenango Furnace Company	Shenango Furnace Company
Prindle	School	2043	S $\frac{1}{2}$ -NE, 36-59-18	9/08/47	1997	United States Steel Corp.	United States Steel Corp.
Prindle	School	2044	W $\frac{1}{2}$ -SE, 36-59-18	9/08/47	1997	United States Steel Corp.	United States Steel Corp.
Pilot	School	2046	SW-NE & NW-SE, 2-58-18	10/01/47	1997	United States Steel Corp.	United States Steel Corp.
Hanna	School	2047	NW-SW, 2-58-18 & NE-SE, 3-58-18	10/01/47	1997	United States Steel Corp.	United States Steel Corp.
Carson Lake Res.	Swamp	2039	NW-SE, 10-57-21	9/07/46	1996	The Hanna Mining Company	The Hanna Mining Company
Weggar	Swamp	2100-N	NE-SE, 6-57-20	9/01/76	1988	Hanna Ore Mining Company	Hanna Ore Mining Company
Cocns	School	2098	E $\frac{1}{2}$ -NW, 16-58-17	8/05/66	1991	Pittsburgh Pacific Co.	Pittsburgh Pacific Co.
Shiras (Part)	School	2102-N	SW-SW, 16-58-19	9/01/76	1983	Rhude & Fryberger Inc.	Rhude & Fryberger Inc.
Frantz	School	2103-N	NW-NW, 21-58-19	9/01/76	1983	Rhude & Fryberger Inc.	Rhude & Fryberger Inc.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
	Univ.	3001	W $\frac{1}{2}$ -NE & SE $\frac{1}{4}$, 14-59-14	7/01/41	*2016	Erie Mining Company	Pickands Mather & Company
	Univ.	3002	S $\frac{1}{2}$ -NW, 14-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3003	SW $\frac{1}{4}$, 14-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3004	SE-NE, E $\frac{1}{2}$ -SE, SW-SE, S $\frac{1}{2}$ -SW, 15-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3005	SE-NW, 15-59-14	7/01/41	*2016	" " "	" " " "
	School	3006	SW $\frac{1}{4}$, 16-59-14	7/01/41	*2016	" " "	" " " "
	School	3007	SE $\frac{1}{4}$, 16-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3008	NE $\frac{1}{4}$ & NE-SE, 22-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3009	E $\frac{1}{2}$ -NE, 21-59-14 & NW $\frac{1}{4}$, 22-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3010	NE $\frac{1}{4}$ & E $\frac{1}{2}$ -NW, 23-59-14	7/01/41	*2016	" " "	" " " "
	Univ.	3011	W $\frac{1}{2}$ -NW & SW $\frac{1}{4}$, 23-59-14	7/01/41	*2016	" " "	" " " "
	School	3012	SE $\frac{1}{4}$, 36-60-14	7/01/41	*2016	" " "	" " " "
	Univ.	3038	SE-SE, 20-59-14	10/01/45	*2020	" " "	" " " "
	Univ.	3068	W $\frac{1}{2}$ -NW, 28-59-14	9/10/48	*2023	" " "	" " " "
	School	3069	N $\frac{1}{2}$ -NW, 36-59-15	9/10/48	*2023	" " "	" " " "
	School	3070	S $\frac{1}{2}$ -NW, 36-59-15	9/10/48	*2023	" " "	" " " "
	School	3071	N $\frac{1}{2}$ -NE, 36-59-15	9/10/48	*2023	" " "	" " " "
	School	3072	N $\frac{1}{2}$ -SW, 36-59-15	9/10/48	*2023	" " "	" " " "

* Taconite Lease Extended

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

<u>Property</u>	<u>Fund</u>	<u>Lease No.</u>	<u>Description</u>	<u>Issued</u>	<u>Expires</u>	<u>Present Lessee</u>	<u>Operating Company</u>
Univ.		3081	N $\frac{1}{2}$ -SW, 22-59-14	11/12/52	*2027	Erie Mining Company	Pickands Mather & Company
Univ.		3089	NE-NE & SE-NE, 14-59-14	11/12/52	*2027	" " "	" " " "
Swamp		3090	NW-NE & SW-NE, 28-59-14	11/12/52	*2027	" " "	" " " "
Swamp		3091	NE-SE & NW-SE, 28-59-14	11/12/52	*2027	" " "	" " " "
School		3092	SW-SW & SE-SW, 36-59-15	11/12/52	*2027	" " "	" " " "
School		3093	NE-SE & NW-SE, 36-59-15	11/12/52	*2027	" " "	" " " "
School		3094	SW-SE & SE-SE, 36-59-15	11/12/52	*2027	" " "	" " " "
Tax F.		T-5001	Min. Rts. NW-NW, 14-59-14	10/01/43	*2018	" " "	" " " "
Tax F.		T-5003	Min. Rts. S $\frac{1}{2}$ -NW, 23-59-15	2/15/44	*2019	" " "	" " " "
Tax F.		T-5009	NW-NW, 29-59-14	3/01/45	*2020	" " "	" " " "
Tax F.		T-5010	Min. Rts. S $\frac{1}{2}$ -SE, SE-SW, 13-59-15	3/01/45	*2020	" " "	" " " "
Tax F.		T-5011	Und. 7/8 Min. Rts. SW-SW, 28-59-15 & Und. 7/8 NW-NW, 33-59-15	10/01/45	*2020	" " "	" " " "
Tax F.		T-5012	Und. 14/15 Min. Rts. N $\frac{1}{2}$ -SW, NW-SE, SW-NE, 15-59-14	10/01/45	*2020	" " "	" " " "
Tax F.		T-5013	Und. 3/16 Int. SE-SE, 22-59-15	3/15/47	*2022	" " "	" " " "
Tax F.		T-5014	Und. 111/432 Min. & Min. Rts. & Und. 11/18 Surf. of NE-NE, Und. 1244/3456 Min. & Min. Rts. & Und. 96/3456 Surf. of NW-NE, Und. 219/432 Min. & Min. Rts. & Und. 170/720 Surf. of SW-NE, Und. 102/432 Min. & Min. Rts. of SE-NE, Und. 7/8 NW-SE, Und. 7/8 NE-SW, 29-59-14.	9/06/47	*2022	" " "	" " " "

* Taconite Lease Extended

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
	Tax F.	T-5016 Sublease	34/40 Min. Rts. of Wly. 400', SE-SE, 28-59-15, & 34/40 Min. Rts. N $\frac{1}{2}$ -NE & NE-NW, 33-59-15		1983	Erie Mining Company	Pickands Mather & Company
	Tax F.	T-5032	Und. 7/8 SE-SE, 29-59-15	3/19/49	*2024	" " "	" " " "
	Tax F.	T-5033	Und. 1/8 Lot 3(NW-SW),30-59-14	3/19/49	*2024	" " "	" " " "
	Tax F.	T-5034	Und. 117/432 Min. Rts. SE-NE, 29-59-14	3/19/49	*2024	" " "	" " " "
	Tax F.	T-5039	E $\frac{1}{2}$ -SE, 21-59-14	7/18/51	*2026	" " "	" " " "
	Tax F.	T-5062-FN	Und. 1/16 Min. Rts. NE-SW, 23-59-15	12/19/60	2010	" " "	" " " "
Dunka River	Tax F.	T-5063-FN	Und. 1/3 Lot 1 (NE-NE),3-60-12	4/28/64	2014	" " "	" " " "
Dunka River	Tax F.	T-5064-FN	Und. 1/3 NE-SE & SE-SE,34-61-12	4/28/64	2014	" " "	" " " "
Dunka River	Tax F.	T-5065-FN	Und. 32/72 Min. & Und. 42/72 Surf. of SW-SW, 35-61-12	4/28/64	2014	" " "	" " " "
Dunka River	Tax F.	T-5066-FN	Und. 32/72 Min. E $\frac{1}{2}$ -NW,35-61-12	4/28/64	2014	" " "	" " " "
Dunka River	Tax F.	T-5067 FN	Und. 1/6 Min. NE-SW, 35-61-12 Amended 11/21/77)	4/28/64)	2014	" " "	" " " "
Dunka River	Tax F.	T-5068-FN	Und. 1/4 NE-SE & SE-SE,9-60-12	4/28/64	2014	" " "	" " " "
**Smith	Tax F.	T-5070	E $\frac{1}{2}$ -NE $\frac{1}{2}$, 28-59-14	11/12/52	*2027	" " "	" " " "
	Swamp	2063-CT	SW-NW, 2-57-21	4/12/50	*2025	Ontario Iron Company	Pickands Mather & Company
	School	3017	W $\frac{1}{2}$ -SW, 9-58-19	7/01/41	*2016	" " "	" " " "
	School	3018	NE-SW, 9-58-19	7/01/41	*2016	" " "	" " " "

* Taconite Lease Extended

** Iron Ore lease converted to Taconite lease under Laws 1951, Chapter 546.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
	School	3019	S $\frac{1}{2}$ -SE, 9-58-19	7/01/41	*2016	Ontario Iron Company	Pickands Mather & Company
	School	3020	N $\frac{1}{2}$ -NE, 10-58-19	7/01/41	*2016	" " "	" " " "
	School	3021	S $\frac{1}{2}$ -NE, 10-58-19	7/01/41	*2016	" " "	" " " "
	School	3022	S $\frac{1}{2}$ -NW, 11-58-19	7/01/41	*2016	" " "	" " " "
	School	3023	N $\frac{1}{2}$ -NW, 11-58-19	7/01/41	*2016	" " "	" " " "
	School	3024	S $\frac{1}{2}$ -NE, 11-58-19	7/01/41	*2016	" " "	" " " "
	School	3027	E $\frac{1}{2}$ -NW, 16-58-19	7/01/41	*2016	" " "	" " " "
	School	3028	W $\frac{1}{2}$ -NW, 16-58-19	7/01/41	*2016	" " "	" " " "
	Swamp	3029	NW-NE, 8-57-21	7/01/41	*2016	" " "	" " " "
Madeira	School	3030	W $\frac{1}{2}$ -NE, 36-58-21	7/01/41	*2016	" " "	" " " "
Madeira	School	3031	E $\frac{1}{2}$ -NE, 36-58-21	7/01/41	*2016	" " "	" " " "
Pool	School	3032	E $\frac{1}{2}$ -SW, 36-58-21	7/01/41	*2016	" " "	" " " "
Pool	School	3033	W $\frac{1}{2}$ -SW, 36-58-21	7/01/41	*2016	" " "	" " " "
Pool	School	3034	W $\frac{1}{2}$ -NW, 36-58-21	7/01/41	*2016	" " "	" " " "
Pool	School	3035	E $\frac{1}{2}$ -NW, 36-58-21	7/01/41	*2016	" " "	" " " "
Pool	School	3037	SE $\frac{1}{4}$, 36-58-21	2/15/44	*2019	" " "	" " " "
	School	3082	NE-SE, 8-58-19	11/12/52	*2027	" " "	" " " "
Yates	School	3083	SE-SW & SW-SE, 11-58-19	11/12/52	*2027	" " "	" " " "

* Taconite Lease Extended :

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

<u>Property</u>	<u>Fund</u>	<u>Lease No.</u>	<u>Descriptor</u>	<u>Issued</u>	<u>Expires</u>	<u>Present Lessee</u>	<u>Operating Company</u>
Yates	School	3084	E $\frac{1}{2}$ -SE, 11-58-19	11/12/52	*2027	Ontario Iron Company	Pickands Mather & Company
	School	3085	W $\frac{1}{2}$ -NE, 16-58-19	11/12/52	*2027	" " "	" " " "
	School	3095	NW-SW & SW-SW, 11-58-19	11/12/52	*2027	" " "	" " " "
	Tax F.	T-5027	Und. 1/2 SW-NE & Und. 41/60 SE-NE, 13-58-20	3/19/49	*2024	" " "	" " " "
	Tax F.	T-5035	Und. 7/8 E $\frac{1}{2}$ -NW, 10-58-19	6/13/50	*2025	" " "	" " " "
Lavinia	Tax F.	T-5073-N	Min. Rts. Lots 21 & 22, Block 15, Plat of Lavinia, together with streets & alleys attaching to lots upon vacation of plat. SW-SE, 25-58-21	6/11/80	1990	Bethlehem Steel Corp., (Und. 75% Interest) Pickands Mather & Co. (Und. 15% Interest) Ontario Hibbing Company (Und. 10% Interest)	" " " "
	School	3013	N $\frac{1}{2}$ -SW, 1-58-19	7/01/41	1991	United States Steel Corp.	United States Steel Corp.
	School	3014	S $\frac{1}{2}$ -SW, 2-58-19	7/01/41	1991	" " " "	" " " "
	School	3015	SW-SE, 2-58-19	7/01/41	1991	" " " "	" " " "
	School	3016	NE-SE, 2-58-19	7/01/41	1991	" " " "	" " " "
	School	3025	N $\frac{1}{2}$ -NE, 11-58-19	7/01/41	1991	" " " "	" " " "
	School	3036	NW-NW, 12-58-19	7/01/42	1992	" " " "	" " " "
Wheeling	School	3049	SW-NW, 1-58-18	9/06/47	1997	" " " "	" " " "
	School	3050	Lots 1 & 2 (N $\frac{1}{2}$ -NE), 2-58-18	9/06/47	1997	" " " "	" " " "
Part Hanna	School	3051	NW-SE, 3-58-18	9/06/47	1997	" " " "	" " " "

* Taconite lease extended

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
SAINT LOUIS COUNTY

<u>Property</u>	<u>Fund</u>	<u>Lease No.</u>	<u>Description</u>	<u>Issued</u>	<u>Expires</u>	<u>Present Lessee</u>	<u>Operating Company</u>
	School	3052	S½-SE, 5-58-18	9/06/47	1997	United States Steel Corp.	United States Steel Corp.
Prindle	School	3053	NW¼, 36-59-18	9/06/47	1997	" " " "	" " " "
Prindle	School	3054	N½-NE, 36-59-18	9/06/47	1997	" " " "	" " " "
Prindle	School	3060	W½-SW, 36-59-18	9/06/47	1997	" " " "	" " " "
Prindle	School	3063	E½-SW, 36-59-18	3/05/48	1998	" " " "	" " " "
	School	3055	SE-SW, SW-SE, 8-58-19	9/06/47	1997	" " " "	" " " "
Section 17	School	3056	NE-NE, 17-58-19	9/06/47	1997	" " " "	" " " "
Section 17	School	3057	W½-NE, 17-58-19	9/06/47	1997	" " " "	" " " "
	School	3058	Lot 2 (S½-N½), 18-58-19	9/06/47	1997	" " " "	" " " "
	School	3059	Lot 3 (N½-S½), 18-58-19	9/06/47	1997	" " " "	" " " "
	School	3061	SW-NW, 4-58-18	2/25/48	1998	" " " "	" " " "
**Seville	School	2037-CT	N½-SE, 10-58-19	7/10/46	1996	" " " "	" " " "
	School	3075	SW-NE, 1-58-18	6/14/50	2000	" " " "	" " " "
	School	3076	SE-SE, 10-58-19	11/14/51	2001	" " " "	" " " "
	School	3077	SW-NE, 12-58-19	11/14/51	2001	" " " "	" " " "
	School	3078	SW-SW, 12-58-19	11/14/51	2001	" " " "	" " " "

** Iron Ore lease converted to Taconite lease under Laws 1951, Chapter 546.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
	Tax F.	T-5015	Und. Int. as follows: 3/4 SE-NW, 7/8 Lot 2 (SW-NW, 7/8 Lot 3 (NW-SW), 7/8 Lot 4 (SW-SW), 30-59-14	9/06/47	1997	United States Steel Corp.	United States Steel Corp.
	Tax F.	T-5016	***Und. 34/40 Min. Rts. SE-SE, 28-59-15 & ****34/40 Min. Rts. N $\frac{1}{2}$ -NE & NE-NW, 33-59-15	9/06/47	1997	" " " "	" " " "
Adriatic	Tax F.	T-5021	W $\frac{1}{2}$ -NE, 30-59-14	3/21/49	1999	" " " "	" " " "
	Tax F.	T-5024	SE-NW & NE-SW, 34-59-18	3/19/49	1999	" " " "	" " " "
	Tax F.	T-5028	Und. 39/40 S $\frac{1}{2}$ -SE, 31-59-18	3/19/49	1999	" " " "	" " " "
	Tax F.	T-5029	Und. 1/2 N $\frac{1}{2}$ -SE, 32-59-18 & Full Int. NW-SW, 33-59-18	3/19/49	1999	" " " "	" " " "
	Tax F.	T-5030	Und. 1/2 SW-SE, 33-59-18	3/19/49	1999	" " " "	" " " "
	Tax F.	T-5036	NW-SE & Und. 17/32 NE-SE, 34-59-18	6/14/50	2000	" " " "	" " " "
	Tax F.	T-5037	SE-NW, SW-NE, 1-58-19	6/14/50	2000	" " " "	" " " "
	Tax F.	T-5038	Lot 1 (NE-NE), 1-58-19	6/14/50	2000	" " " "	" " " "
	Tax F.	T-5060	Und. 7/8 E $\frac{1}{2}$ -SE, 29-55-14	11/15/57	2007	" " " "	" " " "
	Tax F.	T-5061	Und. 7/8 SE-SW & SW-SE, 29-59-14	11/15/57	2007	" " " "	" " " "

*** Westerly 400 feet subleased to Erie Mining Company through 1983.

**** Entire ore body subleased to Erie Mining Company through 1983.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 SAINT LOUIS COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
Peter Mitchell	School	3039	SW $\frac{1}{4}$, 16-60-12	3/01/46	1996	Reserve Mining Company	Reserve Mining Company
Peter Mitchell	School	3040	NW $\frac{1}{4}$, 16-60-12	3/01/46	1996	" " "	" " "
Peter Mitchell	School	3096-N	W $\frac{1}{2}$ -NE, 16-60-12	12/01/66	2016	" " "	" " "
	School	3088	NW-NW, SW-NW, 36-59-17	2/29/52	2002	Eveleth Taconite Company (Und. 38.983%) Eveleth Expansion Company (Und. 61.017%)	Eveleth Taconite Company
	Tax F.	T-5058	SE-SW, 19-58-17	2/29/52	2002	Eveleth Taconite Company (Und. 38.983%) Eveleth Expansion Company (Und. 61.017%)	Eveleth Taconite Company
	Tax F.	T-5059	NE-SW, Lot 3 (NW-SW), 19-58-17	2/29/52	2002	Eveleth Taconite Company (Und. 38.983%) Eveleth Expansion Company (Und. 61.017%)	Eveleth Taconite Company
Fay	Swamp	3064	Lot 1 (NE-NE), 6-58-17	3/05/48	1998	Inland Steel Mining Co.	Inland Steel Mining Co.
Sliver	Swamp	3067	Lot 1 (E $\frac{1}{2}$), 6-58 $\frac{1}{2}$ -17	9/12/49	1999	" " " "	" " " "
	Tax F.	T-5006	Min. Rts. SE-SW & W $\frac{1}{2}$ -SE, 28-59-17	2/15/44	1994	" " " "	" " " "
Includes Allan	Tax F.	T-5031	Und. Int. as follows: 3/16 Lots 1 & 2 (NW $\frac{1}{4}$), 3/16 (SW-NE, 115/128 SE-NE, 31-59-17 and 395/512 SW-NW & NW-SW, 32-59-17	3/19/49	1999	" " " "	" " " "
Ernie	Tax F.	T-5072-N	SW-SE, 32-59-17	10/10/79	1999	" " " "	" " " "

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Table 4-A

STATE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
ITASCA COUNTY

Property	Fund	Lease No.	Description	Issued	Expires	Present Lessee	Operating Company
* Hill Annex	School	374	SE $\frac{1}{4}$, 16-56-23	5/18/00- 5/19/50- 1/01/75	1989	J. & L. Steel Corporation	J. & L. Minnesota Ore Div.
* Hill Annex	School	378	NE $\frac{1}{4}$, 16-56-23	5/18/00- 5/19/50- 1/01/75	1989	" " " "	" " " "
Wyman	Univ.	2011	SE-SW, 22-57-22	8/01/42	1992	Butler Brothers	The Hanna Mining Company
Buckeye	School	2012	W $\frac{1}{2}$ -NE, 36-56-25	10/01/42	1992	Hanna Ore Mining Company	" " " "
Buckeye	School	2013	E $\frac{1}{2}$ -NW, 36-56-25	10/01/42	1992	" " " "	" " " "
Buckeye	School	2017	E $\frac{1}{2}$ -NE, 36-56-25	4/01/43	1993	" " " "	" " " "
Mesabi Chief	Univ.	2025	W $\frac{1}{2}$ -SW, 23-57-22	6/07/43	1993	" " " "	" " " "
Mesabi Chief	Univ.	2027	NE-SW, 23-57-22	1/12/44	1994	" " " "	" " " "
Mississippi #1	Univ.	2095-N	W $\frac{1}{2}$ -NE, 23-57-22	10/03/60	2008	" " " "	" " " "
Majorca	Univ.	2034	S $\frac{1}{2}$ -SW, 9-56-23	5/27/46	1996	Hanna Coal & Ore Corp.	" " " "
Rita Res. (H-52)	Univ.	2071	S $\frac{1}{2}$ -SE, 10-56-23	8/01/52	2002	" " " " "	" " " "
Rita Res. (H-52)	Univ.	2072	Lots 1 & 2 (N $\frac{1}{2}$ -NE), 15-56-23	8/01/52	2002	" " " " "	" " " "
Marr Adair	Tax F.	I-5069-FN	Und. 2/3 Int. Min. & Min. Rts., NW-SE, Lot 7, 3-55-25	7/01/66	2016	J. & L. Steel Corporation	J. & L. Minnesota Ore Div.

* Lease extended under Laws 1959, Chapter 455.

Table 4-A

STATE TACONITE IRON ORE MINING LEASES IN EFFECT JANUARY 2, 1981
 IITASCA COUNTY

<u>Property</u>	<u>Fund</u>	<u>Lease No.</u>	<u>Description</u>	<u>Issued</u>	<u>Expires</u>	<u>Present Lessee</u>	<u>Operating Company</u>
Majorca	Univ.	3041	S $\frac{1}{2}$ -SE, 9-56-23	5/27/46	1996	Hanna Coal & Ore Corp.	The Hanna Mining Company
	Univ.	3042	N $\frac{1}{2}$ -SE, 10-56-23	5/27/46	1996	" " " " "	" " " "
Draper	Univ.	3043	SW-NW, NW-SW, 10-56-23	5/27/46	1996	" " " " "	" " " "
	Univ.	3044	NE-NE, 10-56-23 & NW-NW, 11-56-23	5/27/46	1996	" " " " "	" " " "
Barbara	Univ.	3046	E $\frac{1}{2}$ -SE, 8-56-23	9/07/46	1996	" " " " "	" " " "
Vernon	Univ.	3048	Lot 2 (NW-NE), 2-56-23	3/17/47	1997	Butler Brothers	" " " "
Helen	School	3073	NE-SE & Min. Rts. SE-SE, 36-57-23	8/18/49	1999	" "	" " " "
	Univ.	3062	NW-NW, 23-57-22	2/20/48	*2023	Ontario Iron Company	Pickands Mather & Company

* Taconite lease extended

Table 4-B

STATE OF MINNESOTA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINERALS

STATE COPPER-NICKEL MINING LEASES IN EFFECT JUNE 1, 1981
SAINT LOUIS COUNTY

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Present Lessee	Lease No. CN-	Description	Acreage	Additional Bid		Issued	Expires
				Annual Rental	Royalty Rate		
Bear Creek Mining Company*	7102	Minerals in: SE ₄ -NE ₄ , SE ₄ -SW ₄ , and S ₂ -SE ₄ , Sec. 10-60-12	160	\$25/acre	2.75%	12/30/66	2016
" " " "	7105	SE ₄ -SW ₄ ; minerals in NE ₄ -SW ₄ , Und. 15/16 int. in minerals (without warranty of title) in NE ₄ -NW ₄ , and Und. 1/16 int. in minerals (without warranty of title) in SE ₄ -NW ₄ , Sec. 15-60-12	160	"	2.75%	12/30/66	2016
" " " "	7106	E ₂ -NE ₄ , SE ₄ , Sec. 16-60-12	240	"	2.75%	12/30/66	2016
" " " "	7108	N ₂ -NE ₄ , SW ₄ -NE ₄ , NW ₄ -SE ₄ , Sec. 21-60-12	160	"	2.75%	12/30/66	2016
" " " "	7111	NW ₄ -NE ₄ , S ₂ -NE ₄ , W ₂ , N ₂ -SE ₄ , Sec. 28-60-12	520	"	3.35%	12/30/66	2016
" " " "	7112	SW ₄ -SW ₄ , NE ₄ -SE ₄ , S ₂ -SE ₄ , Sec. 29-60-12	160	"	3.35%	12/30/66	2016
" " " "	7114	E ₂ -NE ₄ , Lot 1, Lot 3, Lot 4, SE ₄ -SW ₄ , Sec. 31-60-12	249.52	"	3.35%	12/30/66	2016
" " " "	7115	N ₂ -NE ₄ , NW ₄ -NW ₄ , S ₂ -SW ₄ , SW ₄ -SE ₄ , Sec. 32-60-12	240	"	3.35%	12/30/66	2016
" " " "	7116	NE ₄ -NE ₄ , S ₂ -NE ₄ , W ₂ , Sec. 33-60-12	440	"	3.35%	12/30/66	2016
" " " "	7125	NE ₄ , SE ₄ -NW ₄ , S ₂ , Sec. 36-60-13	520	"	3.35%	12/30/66	2016
" " " "	7129	SE ₄ -NW ₄ , and minerals, without warranty of title, including any surface interest owned by state in: SW ₄ -NW ₄ , E ₂ -SW ₄ , W ₂ -SE ₄ , Sec. 3-57-14	240	"	2.75%	12/30/66	2016

Table 4-B

<u>Present Lessee</u>	<u>Lease No.</u> <u>CN-</u>	<u>Description</u>	<u>Acreage</u>	<u>Additional Bid</u>		<u>Issued</u>	<u>Expires</u>
				<u>Annual Rental</u>	<u>Royalty Rate</u>		
Bear Creek Mining Company*	7130	Minerals, without warranty of title, including any surface interest owned by state in: Lot 2, S $\frac{1}{2}$ -NE $\frac{1}{4}$, Lot 3, SE $\frac{1}{4}$ -NW $\frac{1}{4}$, NE $\frac{1}{4}$ -SW $\frac{1}{4}$, N $\frac{1}{2}$ -SE $\frac{1}{4}$, SW $\frac{1}{4}$ -SE $\frac{1}{4}$, Sec. 4-57-14	359.20	\$25/acre	2.75%	12/30/66	2016
" " " "	7131	SE $\frac{1}{4}$ -SE $\frac{1}{4}$; and minerals, without warranty of title, including any surface interest owned by state in: N $\frac{1}{2}$ -NE $\frac{1}{4}$, SE $\frac{1}{4}$ -NE $\frac{1}{4}$, NE $\frac{1}{4}$ -NW $\frac{1}{4}$, SW $\frac{1}{4}$ -NW $\frac{1}{4}$, Sec. 9-57-14	240	"	2.75%	12/30/66	2016
" " " "	7132	SE $\frac{1}{4}$ -SW $\frac{1}{4}$, SW $\frac{1}{4}$ -SE $\frac{1}{4}$; and minerals, without warranty of title, including any surface interest owned by state in: NW $\frac{1}{4}$ -SE $\frac{1}{4}$, Sec. 10-57-14	120	"	2.75%	12/30/66	2016
" " " "	7908	Sec. 16-57-14	640	\$5/acre	2.27%	12/18/71	2021
Totals			4,408.72	(3,569.52 trust fund 839.2 tax-forfeited)			

*Bear Creek has entered into a Prospecting and Development Agreement with Amax of Minnesota, Inc., which affects all leases held by Bear Creek. The Agreement has been extended until 10/15/81 and is extendable for one more year.

Table 4-C

SUMMARY
SALES OF COPPER-NICKEL LEASES

Acreage Offered	Sale Date	Leases Awarded	Lessees	Gross Acreage	Leases and Acreage by County																	
					Cook	Lake	St. Louis	Itasca	Koochiching	Lake of Woods	Marshall	Roseau	Beltrami									
132,550	12/20/66	267*	13	87,635	29	6,115	37	8,955	201	72,565												
424,000	8/15/68	130**	2	58,235								117	50,455	13	7,780							
327,000	12/11/68	238	6	88,082					169	59,680	54	21,470	15	6,932								
230,916@	6/30/70	199***	7	92,510					18	8,415	82	37,983	14	7,658	85	38,454						
800	(9/30/71)	3****	1	800											1	160			2	640		
791,399@@	12/14/71	71*****	5	35,647					10	2,720			4	2,431	7	3,186				50	27,310	
237,258@@@	11/29/73	136	5	62,404					74	33,028	1	508	27	14,281	19	7,196	7	3,157		8	4,234	
2,143,923	6 Sales	1,044	17	425,313	29	6,115	37	8,955	472	176,408	137	59,961	177	81,757	125	56,776	7	3,157	2	640	58	31,544

* Includes three leases awarded later and one high bid by Duval (L-117) was rescinded after INCO's objection.

** Includes one negotiated lease and one high bid (LW-119) was not signed, therefore, not awarded.

*** Does not include one high bid pending - Duehr later released his bid on LW-501.

**** Negotiated leases.

***** Of the 78 high bids, action on seven was postponed to a later date. On 12/14/73 six bids were withdrawn by the bidders and one was awarded.

@ Includes only new acreage offered.

@@ Includes only new acreage offered, i.e. 154,131 in Gabbro and 637,268 in Greenstone.

@@@ Includes only new acreage offered which was in the Greenstone.

Note: The first sale was in the Gabbro, the next three in the Greenstone, and the fifth and sixth comprised both Gabbro and Greenstone Formations.

Table 4-D

TOTAL ACCUMULATED COPPER-NICKEL ROYALTY (July 1, 1980)

<u>Fiscal Year</u>	<u>Consolidated Conservation</u>	<u>Acquired Forestry</u>	<u>Tax Forfeited</u>	<u>School Trust Fund</u>	<u>University Trust Fund</u>	<u>Total Royalties Received</u>
1967	\$	\$ 2,778.36	\$ 48,899.31	\$ 33,156.17	\$ 303.26	\$ 85,137.10
1968		714.77	14,657.35	12,154.16	85.80	27,612.08
1969	65,876.45	4,968.65	104,435.22	60,248.89	285.25	235,814.46
1970	10,935.07	2,418.53	48,959.20	34,545.62	186.15	97,044.57
1971	86,788.87	2,072.91	106,510.19	74,085.93	184.22	269,642.12
1972	33,327.49	650.51	40,102.62	34,805.00	60.00	108,945.62
1973	10,369.38		18,091.40	18,408.03		46,868.81
1974	16,255.18	2,892.86	38,141.90	19,295.38	125.59	76,710.91
1975	33,100.66	1,449.81	11,973.65	13,024.09		59,548.21
1976	3,017.84	2,910.17	31,143.23	15,911.88		52,983.12
1977		1,212.21	25,035.14	55,434.54		81,681.89
1978	4,067.74		24,867.11	34,138.99		63,073.84
1979			22,456.74	13,875.15		36,331.89
1980			26,383.61	304,439.54		330,823.15
	<u>\$263,738.68</u>	<u>\$22,068.78</u>	<u>\$561,656.67</u>	<u>\$723,523.37</u>	<u>\$ 1,230.27</u>	<u>\$ 1,572,217.77</u>

DISTRIBUTION OF COPPER-NICKEL ROYALTY

	<u>Consolidated Conservation</u>	<u>Acquired Forestry</u>	<u>Tax Forfeited</u>	<u>School Trust Fund</u>	<u>University Trust Fund</u>	<u>Total Royalties Received</u>
C.C.A.F.	\$131,869.34					\$ 131,869.34
County	131,869.34	\$11,034.39	\$445,325.34			592,229.07
General Revenue		11,034.39	112,331.33			123,365.72
Trust Funds				\$723,523.37	\$1,230.27	<u>724,753.64</u>
Total						\$1,572,217.77

Table 4-D

DISTRIBUTION OF COPPER-NICKEL ROYALTY*

	<u>Consolidated Conservation</u>	<u>Acquired Forestry</u>	<u>Tax Forfeited</u>	<u>School Trust Fund</u>	<u>University Trust Fund</u>	<u>Total Royalties Received</u>
. C. A. F.	\$131,869.34					\$ 131,869.34
ounty						
Beltrami	16,125.89		\$ 15,358.00			31,483.89
Cook			943.05			943.05
Itasca		\$ 191.95	51,301.22			51,493.17
Koochiching	58,235.10	3,407.52	20,987.44			82,630.06
Lake			12,801.43			12,801.43
8 Lake of the Woods	55,265.07					55,265.07
Marshall	1,843.28					1,843.28
Roseau	400.00					400.00
St. Louis		7,434.92	347,934.19			355,369.11
neral Revenue		11,034.39	112,331.34			123,365.73
ust Funds				<u>\$723,523.37</u>	<u>\$1,230.27</u>	<u>724,753.64</u>
tal	\$263,738.68	\$22,068.78	\$561,656.67	\$723,523.37	\$1,230.27	\$1,572,217.77

Distribution as of July 1, 1980

MINNESOTA STATUTES 1965, SECTIONS 93.08 TO 93.12,
INCLUSIVE, AND SECTION 93.25; AND
THE RULES AND REGULATIONS ADOPTED
BY THE STATE EXECUTIVE COUNCIL
ON NOVEMBER 8, 1966.

Table 4-E

Recorded in Book CN
March 28, 1967

Royalty Rate Bid:
Additional 3.35 per cent.

Lease No. CN-7114

Mining Unit SL-34

This indenture, made this 30th day of December, 1966, by and between the State of Minnesota, hereinafter called the state, and Bear Creek Mining Company, 1826 Kennecott Bldg., 10 East South Temple, Salt Lake City, Utah, a Delaware corporation,

hereinafter called the lessee, WITNESSETH:

1. TERM; DESCRIPTION OF MINING UNIT. That the state, for and in consideration of the sum of Five Hundred Seventy-Six and 98/100 (576.98) Dollars, to it in hand paid by the lessee, being the rental hereinafter provided for the unexpired portion of the current calendar year and for the next succeeding calendar year, the receipt whereof is hereby acknowledged, and in further consideration of the covenants and conditions hereof to be kept and performed by the lessee, does hereby lease and demise unto the lessee for a term of fifty (50) years beginning the 30th day of December, 1966, the following-described mining unit, hereinafter called "said mining unit", situated in the county of Saint Louis, in the State of Minnesota, to-wit:

The East Half of Northeast Quarter ($E\frac{1}{2}-NE\frac{1}{4}$), Lot One (1), Lot Three (3), Lot Four (4), and the Southeast Quarter of Southwest Quarter ($SE\frac{1}{4}-SW\frac{1}{4}$), containing 249.52 acres, more or less; and the minerals and mineral rights, without warranty of title, in the following:

West Half of Northeast Quarter ($W\frac{1}{2}-NE\frac{1}{4}$),
East Half of Northwest Quarter ($E\frac{1}{2}-NW\frac{1}{4}$),
Lot Two (2),
Northeast Quarter of Southwest Quarter ($NE\frac{1}{4}-SW\frac{1}{4}$),
North Half of Southeast Quarter ($N\frac{1}{2}-SE\frac{1}{4}$),
containing 324.32 acres, more or less,

in Section Thirty-one (31), Township Sixty (60) North, Range Twelve (12) West.

Description	Gross Acres	Net Acres	Revisions									
			Inst.	Date	Revsd. Acres	Inst.	Date	Revsd. Acres	Inst.	Date	Revsd. Acres	
<u>Section 31, T. 60, R. 12</u>												
<i>Swamp Lands</i>												
<i>E 1/2 - NE</i>		80.										
<i>Lot 1</i>		16.04										
<i>Lot 3</i>		17.60										
<i>Lot 4</i>		10.88										
<i>SE - SW</i>		10.										
<i>Total school swamp lakebed</i>		249.52			249.52							
<i>Tax Fertile Lands</i>												
<i>Minerals only of:</i>												
<i>W 1/2 - NE Declared Longyear Alaska Co. minerals</i>		80	Admnl	12-7-67	None							
<i>E 1/2 - NW " " "</i>		80	"	"	"							
<i>Lot 2 " " "</i>		44.32	"	"	"							
<i>NE - SW " " "</i>		40.	"	"	"							
<i>N 1/2 - SE " " "</i>		80.	"	"	"							
<i>Total Tax Fertile Lands</i>		324.32			0.00							
<i>Total Leased Lands</i>		573.84			249.52							
<i>See Certificate of Title # 179613</i>												

Table 4-E

UNIT NO. SL-3A

RECORD OF STATE MINERAL LEASE NO. CN-711A

File No.	Date Recorded	Date of Issue	To Whom Issued	
71-3	3-28-67	12-30-66	Bear Creek Mining Company	Sec. 31 T. 60 R. 12

ASSIGNMENTS AND OTHER INSTRUMENTS FILED

File No.	Date Recorded	Kind of Instrument	Date of Issue	By Whom Issued	Interest	To Whom Issued	Time Filed		
							Mo.	Day	Yr.
		Certs. # 7174 7179613	12/7/67	District Court Sixth Judicial Dist.	Full		12	7	67
71	9-22-76	Development Agreement plus Exhibits A, A-1, B, C, & D to such Development Agreement affecting leases CN-7102, 7105, 7106, 7108, 7111, 7112, 7114, 7115, 7116, 7123, 7129 thru 7132 & 7908.	2-22-74	Bear Creek Mining Co.	Varies*	Amax, Inc.	8	30	76
		*Grant of exclusive prospecting and development rights, plus an option for sublease of all interests, or the possibility for an earned undivided interest.							
	9/17/79	Assignment	9/12/79	Commissioners of Natural Resources	all	Bear Creek Mining Company	9	17	79
	7/10/80	Assignment of Leasehold Interest Agreement	6/30/80	Amax, Inc.	all	Amax of Minnesota, Inc.	8	29	1980

TABLE 5
 PERMANENT SCHOOL FUND LANDS
 REQUESTS TO PURCHASE

YEAR	REQUESTS	REQUEST APPROVED	ACRES APPROVED	REQUEST DENIED	ACRES DENIED
1980	48	10	440	38	5,840
1979	59	18	1,045	41	6,395
1978	41	17	698.3	24	2,341.7
1977	79	2	82.0	77	8,158
1976	43	7	400	36	4,520

TABLE 6

PERMANENT SCHOOL FUND LAND BY DNR MANAGEMENT UNITS

Management Unit	Permanent School Fund Acres Within Management Units	Condemned Permanent School Fund Acres Within Management Units	
		Acres	Amount Paid Dollars
Wildlife Management Areas (WMA)	68,070	47,625.96	927,184.48
State Forests	1,605,215.29	-0-	-0-
Minerals	52.66	-0-	-0-
State Parks	9,717.28	1,793.8	230,800.00
State Waysides	640	-0-	-0-
SNA's	-0-	-0-	-0-
State Trails	237.54	-0-	-0-
Public Access	204	-0-	-0-
Wild & Scenic Rivers	644.77	-0-	-0-
Fisheries	-0-	392.5	15,212.50
TOTAL	1,684,781.54	49,812.26	1,173,196.98
All Other Permanent School Trust Condemnations	-0-	32,777.04	4,717,742.56
RAND TOTAL	2,522,011.3	82,589.30	5,890,939.54

TABLE 7
MINNESOTA
PERCENT OWNERSHIP OF PEATLANDS

<u>Ownership</u>	<u>Acres</u>	<u>Percent</u>
Federal	445,520	7.5
State Trust	1,489,720	25.2
County Tax Forfeit	354,000	6.0
Other County	274,600	4.6
Private	2,307,160	38.9
Consolidated Conservation	1,055,120	17.8
TOTAL	5,926,120	100.0

Source: MLMIS (Nov. 1978)