

2014

Minnesota Department Of Natural Resources
Division of Forestry

M.S. 16A.125 Transfer Certification Report

This report identifies forestry revenues attributable to trust lands, the costs certified against trust lands forestry, and how the certified costs and net revenues from trust lands are distributed



January 5, 2014

Executive Summary

Minnesota Department of Natural Resources (MNDNR), Division of Forestry (FOR) is responsible for forest resource management on 2.5 million surface acres of School and University Trust land in Minnesota of which 2.37 million acres are subject to cost certification under Minnesota Statute 16A.125. Qualifying state land forestry revenue totaled \$19.8 million in FY 2014 while qualifying trust land forest management revenue was \$10.1 million, 51.2 percent of qualifying state land forestry revenue (Table 1).

Table 1. FY 2014 Summary of Minn. Stat. 16A.125 Qualifying Revenues

Category	Total Qualifying Revenue	School Trust Qualifying Revenue	Univ Trust Qualifying Revenue	Sum Trust Qualifying Revenue	Trust % of Total
Timber Sales	\$18,922,832	\$9,142,970	\$118,011	\$9,260,982	48.9%
TS Interest & Penalty	\$13,820	\$6,130	\$24	\$6,155	44.5%
Resource Mgmt Access	\$510	\$510	\$0	\$510	n/a
Leases & Land Use	\$871,871	\$854,776	\$17,095	\$871,871	n/a
Column Sum/Avg.	\$19,809,034	\$10,004,387	\$135,130	\$10,139,517	51.2%

In FY 2014, net qualifying expenditures totaled \$18,964,908 with a combined School/University Trust cost recovery proration of \$7,885,498, some 41.6 percent of net expenditures (Table 2).

Table 2. FY 2014 Financial Summary of Minn. Stat. 16A.125 Qualifying Expenditures

Statutory Category	Total Net Qualifying Expense	School Trust Proration	Univ Trust Proration	Sum Trust Proration	Trust % of Total
Management					
sub-Timber Sales	\$9,301,623	\$4,170,111	\$32,273	\$4,202,384	45.2%
sub-Forest Mgmt	\$2,660,614	\$1,192,809	\$9,231	\$1,202,040	45.2%
Improvement	\$2,514,680	\$1,127,383	\$8,725	\$1,136,108	45.2%
Forest Roads	\$1,413,483	\$66,092	\$511	\$66,603	4.7%
Administration	\$3,074,509	\$1,268,545	\$9,817	\$1,278,363	41.6%
Column Sum/Avg.	\$18,964,908	\$7,824,939	\$60,558	\$7,885,498	41.6%

Under 2014 Minn. Stat. 16A.125, Subd. 5d, this report certifies cost recovery and the transfer of funds from the forest suspense account to the Forest Management Investment Account (FMIA) of \$6,607,135 for management, improvement and road costs, and to the General Fund of \$1,278,363 for administration costs; with \$2,278,494 being transferred to the trust (\$2,203,922 to the School Trust and \$74,572 to the University Trust).

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allocated on a per acre basis between school and university. Some \$7,885,498 of the total was allocated to the Trust as follows: \$7,824,939 School Trust and \$60,558 University Trust.

Management—Expenditures are divided into two sub-categories; timber sales and forest resource management. Timber activities consist of timber sales preparation, permit supervision, scaling, and timber enforcement. Forest management expenditures, the cost of maintaining forests for future revenue, include: policy development, management planning, harvest scheduling, and forest inventory. Management costs are prorated based on the percentage of trust acres to total acres subject to certification. On a statewide basis, the trust allocation is 45.2 percent, \$5,404,423 of the total \$11,962,237 qualifying expenditures.

Forest Improvement—Activities include site preparation and reforestation and timber stand improvement (TSI) that establish and improve forests for future revenue. Improvement costs are prorated based on the percentage of trust acres to total acres subject to certification. On a statewide basis, the trust allocation is 45.2 percent, \$1,136,108 of the total \$2,514,680 qualifying expenditures.

Forest Roads—State forest roads provide direct access to a relatively small portion of trust lands. Road costs are allocated to the trust based on the number of acres within ¼ mile of designated state forest system roads. On a statewide basis, this amounts to 4.7 percent of total acres managed and \$66,603 of the total \$1,413,483 qualifying roads expenditures.

Administration—Department services provided to the Division of Forestry and Division of Forestry activities include: leadership services, human resources, accounting, general office & clerical, and other direct and necessary costs related to the support of staff that generates revenue. Administrative costs are allocated based on the ratio of trust land expenditures to net qualifying expenditures for: management, improvement, and roads. On a statewide basis, the trust proration is 41.6 percent, \$1,278,363 of the total \$3,074,509 qualifying expenditure.

III. Trust Cost Certification History

Forestry revenue totaled just under \$19 million in FY 2014. Of the total, \$10.1 million qualified for cost certification with net to the trust of \$2.3 million (Table 3a). As per Minn. Stat. 16A.125, Subd 5., certified costs for management, improvement and roads are transferred to FMIA. Certified costs for administration are transferred to the General Fund. The balance is transferred to the permanent school and university trust funds.

Effective FY 2014, protection costs were removed from qualifying expenditures (Table 3b). FY 2014 management costs increased due to an increase in direct expenditures combined with a change in general operations allocation methodology to fully account for general operations expenditures by statutory category. Administrative costs decreased due to recategorization of certain activities.

Table 3a. Forest Suspense Account History.

(amounts in thousands)	FY10	FY11	FY12	FY13	FY14	5-Yr Avg.
Total Forestry Revenue	\$18,946	\$19,564	\$17,114	\$15,931	\$18,982	\$18,107
Qualifying Trust Revenue	\$9,713	\$10,060	\$8,577	\$7,792	\$10,140	\$9,256
Cost Transfer to GF	\$3,793	\$3,026	\$2,793	\$3,551	\$1,278	\$2,888
Cost Transfer to FMIA	\$4,926	\$4,934	\$4,931	\$4,178	\$6,607	\$5,115
Sum Cert. Cost Transfers	\$8,719	\$7,960	\$7,724	\$7,729	\$7,885	\$8,003
Net to Trust*	\$980	\$2,403	\$886	\$154	\$2,278	\$1,340

*Includes non-qualifying revenue.

Table 3b. Forestry Certified Costs History.

(amounts in thousands)	FY10	FY11	FY12	FY13	FY14	5-Yr Avg.
Protection	\$2,000	\$1,169	\$1,518	\$2,326	\$0	\$1,403
Forest Management	\$4,100	\$4,361	\$4,242	\$3,828	\$5,404	\$4,387
Forest Improvement	\$771	\$557	\$664	\$789	\$1,136	\$783
Forest Roads	\$55	\$16	\$24	\$26	\$67	\$38
Administration	\$1,793	\$1,857	\$1,275	\$1,602	\$1,278	\$1,561
Total	\$8,719	\$7,960	\$7,723	\$8,571*	\$7,885	\$6,457

*Actual transfer was \$7,728,916 due to cost certification exceeding qualifying revenue.

Notes to Tables 3a, 3b

M.S.16A.125, Subd 5(d)

■ Forest Management, Forest Improvement and Forest Road Costs are transferred to FMIA.

■ Effective FY 2014, only Administration costs are transferred to the General Fund.

*Actual transfer was \$7,728,916 due to cost certification exceeding qualifying revenue.

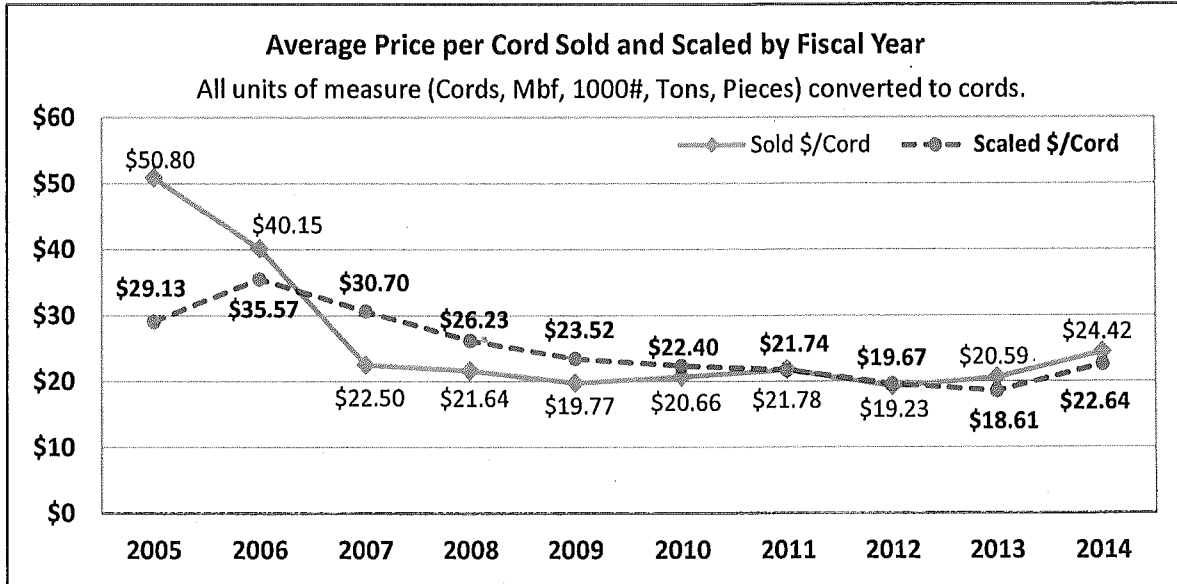


Figure 3. DNR 10-Year History Average Price Received for Timber Sold and Scaled, all Land Types.

Due to the timber market collapse that began in August 2006, the average price per cord sold for state timber dropped 60% in FY2009 compared to the value received in FY2005. Many of the sales that were sold in FY2005-06 for \$40+ per cord were forfeited and then resold in subsequent years at a lower price. Due to the harvest of windstorm-damaged salvage timber sales in FY2012-13, the average price/cord of timber harvested (scaled) decreased.

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Table 4. Minn. Stat. 16A.125, Subd. 5.c. - Financial Performance Comparisons (a)

(amounts in thousands, except as noted)	MNDNR School Trust FY2014	COMP 1 CY2013	COMP 2 CY2013	COMP 3 CY2013	COMP 4 FY2014	COMP 5 CY2013
REVENUES						
Timber Sales (Stumpage)	\$9,149.6	\$1,356.8	\$4,102.9	\$2,020.6	\$3,662.6	\$152,628.5
Leases & Land Use	\$854.8	\$85.0	\$738.6	\$2.2	\$4.6	
Sum Revenue	\$10,004.4	\$1,441.8	\$4,841.5	\$2,022.8	\$3,667.2	\$152,628.5
EXPENSES						
Total Expenditure	\$7,824.9	\$1,153.1	\$4,210.0	\$1,392.1	\$3,455.1	\$79,203.5
NET INCOME						
Profit/(Loss) from Operations	\$2,179.5	\$288.7	\$631.5	\$630.7	\$212.1	\$73,425.0
PROFITABILITY						
Operating Margin	21.8%	20.0%	13.0%	31.2%	5.8%	48.1%
Operating P/(L) per Cord (b)	\$5.28	\$3.57	\$3.70	\$5.95	\$2.12	\$51.46
PROFIT POTENTIAL						
Gross Revenue per Cord (b)	\$22.17	\$16.78	\$24.04	\$19.06	\$36.59	\$106.98
MGMT EFFICIENCY						
Expense per cord (b)	\$18.96	\$14.26	\$24.66	\$13.13	\$34.52	\$55.52
LAND PRODUCTIVITY/POLICY						
Cords Harvested per Acre (c)	0.26	0.45	0.23	0.38	0.21	1.01
STATISTICAL DATA						
Fiscal Year End	June 30	Dec 31	Dec 31	Dec 31	Sept 30	Dec 31
Cords Sold	435.8	80.1	183.8	106.0	103.8	
Cords Harvested	389.6	81.6	157.6		96.4	1,426.7
Avg. of Cords Sold & Harvested	412.7	80.8	170.7		100.1	
Commercial Timber Acres	1,500.0	178.0	693.4		459.3	
Admin Acres	2,520.3	255.7	872.1	277.1	666.5	1,412.0

Notes to Table 4 Financial Performance Comparisons

(a) Financial comparisons 1-5 include: Cass County Minn., Saint Louis County Minn., Douglas County Wis., Chippewa National Forest Minn., and Potlatch Timber REIT Resource Mgmt. Business Segment with timberland in Idaho (50% acres), Southern U.S. (39% acres), and Minn. (11% acres) respectively.

(b) Used cords sold or harvested if avg. cords sold & harvested not available.

(c) Used Admin acres if commercial timber acres not available.

D Administrative Costs for Trust Lands

Administration includes many support activities that maintain efficiency and allow foresters to concentrate on managing the state's forests.

Sum of Allowable Forestry General Fund/FMIA Administrative Costs	\$ 2,293,082.54
Administrative Portion of Forestry General Operating GF/FMIA Costs	\$ 781,426.43
Total Net Admin Costs	\$ 3,074,508.97
Total Direct Trust Land Costs (Includes General Ops allocations)	\$ 6,607,134.87
Total Qualifying General Fund/FMIA Costs Less Admin	\$ 15,890,399.31
Trust Direct Costs as a Percent of Total Qualifying General Fund/FMIA Direct Costs	41.58%
Trust Portion of Administrative Costs	\$ 1,278,362.80
Trust Land Administrative Cost Per Acre ⁽¹⁾	\$0.54
School Trust Administrative Costs (cost per acre times school trust acres)	\$ 1,268,545.35
University Trust Administrative Costs (cost per acre times university trust acres)	\$ 9,817.45

⁽¹⁾ The totals charged against school and university acres may be off due to rounding of the cost per acre.

E Forest Road Costs for Trust Lands

Maintaining the forest road systems includes maintaining bridges, road surfaces, and right-of-way, and installing and maintaining culverts and signs. Costs are allocated by state forest road miles directly serving trust acres.

Sum of Allowable Forestry General Fund/FMIA State Forest Road Costs	\$ 896,184.14
State Forest Roads Portion of Forestry General Operating GF/FMIA Costs	\$ 517,298.64
Total State Forest Road Costs	\$ 1,413,482.78
Trust Land Acreage as a Percent of Total Acres Served by State Forest Roads	4.71%
State Forest Road Costs Allocated to Trust Lands	\$ 66,603.31
Trust Land Forest Road Cost Per Acre	\$0.028
School Trust Forest Improvement Cost (cost per acre times school trust acres)	\$ 66,091.81
University Trust Forest Improvement Cost (cost per acre times university trust acres)	\$ 511.49

⁽¹⁾ The totals charged against school and university acres may be off due to rounding of the cost per acre.

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