

Minnesota Department of Natural Resources
Division of Forestry
M.S. 16A.125, Subd 5. Certification Report
Forest Suspense Account 2017

	School Susp. Fund: 3800	Univ. Susp. Fund: 6000	School+Univ Susp. Total
REVENUES			
[A] Revenues Forestry Qualifying	\$ 11,202,969	\$ 253,075	\$ 11,456,043
[B] Revenues Non-Qualifying	\$ 387,888	\$ -	\$ 387,888
[C] Total Revenues	\$ 11,590,857	\$ 253,075	\$ 11,843,932
APPROPRIATIONS, EXPENDITURES, AND REIMBURSEMENTS			
Non-Forestry Direct Appropriations Out of Forest Suspense Account			
DNR Lands and Minerals			
Minn. Laws 15.SP1, Ch. 04, Art. 03, Sec. 02	\$ (200,000)	\$ -	\$ (200,000)
Dept. of Admin Trust Director			
Minn. Laws. 15.SP1, Ch. 04, Art. 03, Sec. 09	\$ (300,000)	\$ -	\$ (300,000)
Dept. of Admin Trust Director			
Minn. Laws. 16.0. Ch. 189, Art.03, Sec. 06	\$ (250,000)	\$ -	\$ (250,000)
[D] Total Non-Forestry Direct Appropriations	\$ (750,000)	\$ -	\$ (750,000)
Total Revenues Minus Direct Appropriations	\$ 10,840,857	\$ 253,075	\$ 11,093,932
Expenses - Forestry Qualifying			
[E] Management	\$ (5,993,760)	\$ (46,387)	\$ (6,040,147)
[F] Improvement	\$ (1,604,594)	\$ (12,418)	\$ (1,617,012)
[G] Forest Roads	\$ (219,079)	\$ (1,695)	\$ (220,774)
[H] Administration	\$ (1,443,356)	\$ (11,170)	\$ (1,454,526)
[J] Forestry Certified Costs	\$ (9,260,789)	\$ (71,670)	\$ (9,332,459)
Non-Forestry Reimbursements to General Fund			
Dept. of Admin Trust Director			
Minn. Stats. 15, Ch. 16A.125, Subd. 5(d)(2)	\$ (191,501)	\$ -	\$ (191,501)
Permanent School Fund Commission (PSFC)			
Minn. Stats. 15, Ch. 16A.125, Subd. 5(d)(2)	\$ (5,432)	\$ -	\$ (5,432)
[K] Total Non-Forestry Reimbursements	\$ (196,933)	\$ -	\$ (196,933)
NET INCOME			
[L] Forestry Net to Trust Funds ⁽¹⁾	\$ 1,942,180	\$ 181,405	\$ 2,123,584
[M] Net to Permanent Trust Funds ⁽²⁾	\$ 1,383,135	\$ 181,405	\$ 1,564,540

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Transfers to Other Funds Per M.S. 16A.125, Subd. 5(d)			
Transfer to the Forest Management Investment Account			
M.S. 16A.125, Subd. 5(d)(1) Transfer ⁽³⁾	\$ (7,817,433)	\$ (60,500)	\$ (7,877,933)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(2) Transfer ⁽⁴⁾	\$ (196,933)	\$ -	\$ (196,933)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(3) Transfer ⁽⁵⁾	\$ (1,443,356)	\$ (11,170)	\$ (1,454,526)
Total M.S. 16A.125 Transfers to Other Funds	\$ (9,457,722)	\$ (71,670)	\$ (9,529,392)

Table Notes

- ⁽¹⁾ Forestry qualifying revenues [line A] minus forestry certified costs [line J]
- ⁽²⁾ M.S. 16A.125, Subd. 5(d)(4) Transfers to the Permanent Trust Funds
- ⁽³⁾ Sum of certified forest management [line E], improvement [line F], and forest roads [line G] costs.
- ⁽⁴⁾ Sum of Dept. of Admin, Trust Director and PSFC cost reimbursements as shown on line K.
- ⁽⁵⁾ Forestry qualifying administration costs as shown on line H.

Totals may not add due to line item rounding to the nearest dollar.

Submitted By:

Reviewed By:

Certified By:

 Forrest Boe
 Director
 Div of Forestry

 Barb Juelich
 Chief Financial Officer
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 Sean Fahnhorst
 Exec Bdgt Officer
 MN Mgmt & Budget

Date: _____

Date: _____

Date: _____

2017

M.S. 16A.125 Transfer Certification Report

This report identifies forestry revenues attributable to trust lands and the forestry expenditures certified against trust lands. Department of Administration Trust Director and other non-forestry expenditures drawn from the State Forest Suspense Account within the Permanent School Fund are included to fully document how Forest Suspense Account revenues from state managed trust lands are distributed.



Division of Forestry

March 5, 2018

M.S. 16A.125 Transfer Certification Report

Cost of Preparation

Name of Legislative Report: Transfer Certification Report
Minnesota Statute Reference: M.S 16A.125, Subd. 5(d)
Prepared by: Don Deckard, Ph.D., State Forest Economist
Department of Natural Resources, Division of Forestry
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Description of Cost	Further explanation if necessary	Amount
Staff time (salary & fringe)	190 hours @ \$50/hour	9,500
Duplication	nominal	
Other	nominal	
TOTAL TO PREPARE REPORT		\$9,500

Statutory Provisions

Minnesota Statute 16A.125, Subd. 5 specifies which types of forestry costs are certified against trust fund lands and how the certified costs and net income from trust fund lands are distributed. Only those costs paid from the General Fund and Forest Management Investment Account that fund state land forest management are included in the cost certification. Costs charged to dedicated funds, federal funds, and capital budgets are excluded from the cost certification process. In addition, only revenues derived from Forestry funded activities are included in the process. Non-forestry revenues, such as mineral royalties, forest campground receipts, and lake shore leases are excluded. Minnesota Laws of 2012, Chapter 249, Section 3, Subd.5c amended 16A.125 to remove protection from certifiable costs effective July 1, 2013.

EXECUTIVE SUMMARY

Minnesota Department of Natural Resources, Division of Forestry (DNR-Forestry) is responsible for forest resource management on about 2.5 million surface acres of school and university trust lands in Minnesota, of which 2.37 million acres are subject to cost certification under Minn. Stat. 16A.125. In fiscal year (FY) 2017, qualifying revenue from DNR-Forestry managed trust lands totaled \$11.456 million, a decrease of \$0.413 million or 3.5 percent compared to FY 2016 (Table 1). FY 2017 net qualifying forestry expenditures for DNR-Forestry managed trust lands totaled \$9.332 million, an increase of \$1.032 million or 12.4 percent compared to FY 2016. FY 2017 total volume scaled (harvested) from trust lands was 335,436 cord equivalents, a decrease of 16,880 cord equivalents or 4.8 percent year-over-year. In FY 2017, the average value of wood scaled (harvested) was \$27.34 per cord, a decrease of \$1.09 per cord or 3.8 percent year-over-year.

Table 1: FY2017 Minn. Stat. 16A.125 Forest Suspense Account Forestry Financial Results (a)

FORESTRY REVENUES	FY2016	FY2017	YoY Change	Change%
Timber Sales	\$10,808,246	\$10,255,359	(\$552,887)	-5.1%
TS Interest & Penalty	\$3,975	\$5,332	\$1,357	34.1%
Res Mgmt Access	\$1,286	\$5,000	\$3,714	288.8%
Land Use	\$1,055,058	\$1,190,352	\$135,294	12.8%
Revenues Summary	\$11,868,565	\$11,456,043	(\$412,522)	-3.5%
FORESTRY EXPENSES				
Management	\$6,021,071	\$6,040,147	\$19,076	0.3%
Improvement	\$874,082	\$1,617,012	\$742,930	85.0%
Forest Roads	\$138,107	\$220,774	\$82,667	59.9%
Administration	\$1,266,794	\$1,454,526	\$187,732	14.8%
Expenses Summary	\$8,300,054	\$9,332,459	\$1,032,405	12.4%
Forestry Operating Income	\$3,568,511	\$2,123,584	(\$1,444,927)	-40.5%
Forestry Operating Margin	30.1%	18.5%	na	-11.5%
TIMBER VOLUMES & PRICES	FY2016	FY2017	YoY Change	Change%
Volume SOLD (cords)	432,798	433,843	1,045	0.2%
Average SOLD Price (per cord)	\$30.86	\$28.27	(\$2.59)	-8.4%
Volume SCALED (cords)	352,316	335,436	(16,880)	-4.8%
Average SCALED Price (per cord)	\$28.43	\$27.34	(\$1.09)	-3.8%

a) Totals may be off due to line item rounding.

M.S. 16A.125 Transfer Certification Report

Per Minn. Stat. 16A.125, Subd. 5(d), this report certifies DNR-Forestry cost recovery and the transfer of funds from the State Forest Suspense Account to the Forest Management Investment Account (FMIA) of \$7,877,933 (FY 2016, \$7,033,260) for management, improvement, and road expenditures, and to the General Fund (GF) of \$1,454,526 (FY 2016 \$1,266,794) for DNR-Forestry administration costs. Net income from forest management was \$2,123,584 (FY 2016, \$3,568,512), an 18.5 percent forestry operating margin (FY2016, 30.1 percent) for the combined school and university trust funds.

Accounting for FY 2017 non-qualifying State Forest Suspense Account revenues (\$387,888), non-forestry direct appropriations to DNR-Lands and Minerals (\$200,000), Department of Administration-Trust Director (\$550,000), and GF reimbursements (\$196,933) of Department of Administration-Trust Director and Permanent School Fund Commission (PSFC) expenditures, \$1,564,540 (FY 2016 \$3,196,691) was transferred to the combined trust funds with \$1,383,135 to the Permanent School Fund and \$181,405 to the University Trust.

Gross-Net Trends

FY 2017 qualifying forestry revenue from combined trust lands declined for the second consecutive year to \$11.456 million, 3.5 percent below FY 2016. Forestry operating income from combined trust lands also declined for the second consecutive year to \$2.124 million, 40.5 percent below FY 2016. FY 2017 qualifying forestry revenue from school trust land (STL) declined by \$0.592 million, 5 percent below FY 2016. FY 2017 STL forestry operating income was \$1.942 million, a decline of \$1.616 million or 45.4 percent compared to FY 2016 (Figure 1).

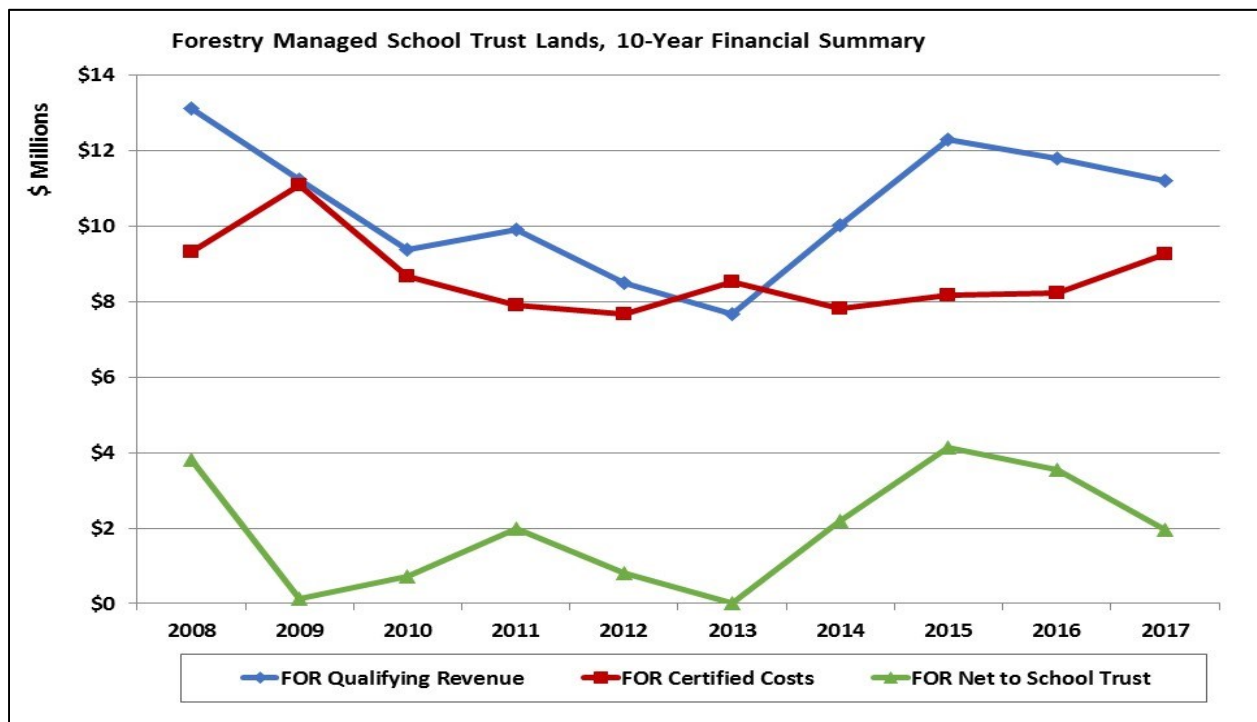


Figure 1: 10-Year Financial Summary for DNR-Forestry Managed School Trust Lands.

I. QUALIFYING REVENUES AND EXPENDITURES

This cost certification report provides details on forestry revenue and forest management costs for trust fund land in fiscal year FY 2017. Effective July 1, 2013, two key changes were made to Minn. Stat. 16A.125: (i) fire protection was removed from qualifying activities and (ii) language was added requiring "...an analysis that compares costs certified under this section [Subd. 5] with costs incurred on other public and private lands with similar land assets." The cost certification is organized by four statutory categories: Forest Management, Improvement, Forest Roads, and Administration.

Qualifying Revenues

Qualifying forestry revenues include timber sales and certain land use receipts generated from combined trust lands that are funded by DNR-Forestry GF and FMIA forest management appropriations. FY 2017 receipts from forest management activities across all state administered lands (Acquired Forestry, Acquired Wildlife, Consolidated Conservation, School Trust, University Trust, etc.) totaled \$21.567 million, a year-over-year decrease of \$1.495 million or 6.5 percent. Qualifying forestry revenues of \$11.456 were realized from combined trust lands, a year-over-year decrease of \$0.413 million or 3.5 percent.

Qualifying Expenditures

Qualifying expenditures are GF and FMIA appropriations for state land forest management (SLFM) activities that are necessary in order to generate revenue. DNR-Forestry budgets division programs and tracks expenditures using a set of unique cost codes applied by fund and appropriation. The accounting strings identify qualifying and non-qualifying expenditures by activity (e.g. timber sale preparation and design, forest inventory, forest roads, private forest management, etc.) that generate the expenditure. Work activities required to generate SLFM revenue qualify for Minn. Stat. 16A.125. The qualifying SLFM activities are grouped into the four (4) statutory cost categories: management, improvement, roads, and administration. In addition, general operations expenditures (fleet, facilities, information technology, and time off) are grouped as a separate category to be prorated across direct cost categories. General operations expenditures are allocated between qualifying and non-qualifying activities. Then, the qualifying portion of general operations is prorated to each statutory cost category based on the percentage of direct qualifying expenditures in each statutory category (management, improvement, roads, and administration). Qualifying expenditures are limited to SLFM activities that generate state forestry revenue and activities required to facilitate state forestry revenue. Work activities such as private land forest management assistance, urban forestry, and the USFS Good Neighbor Agreements are excluded from the cost certification process.

For FY 2017, DNR-Forestry GF and FMIA forest management expenditures totaled \$32.045 million. Of the total, Minn. Stat. 16A.125 net qualifying SLFM expenditures totaled \$22.853 million for all acres subject to cost certification. Based on the percentage of trust acres to total acres, qualifying forestry expenditures for trust lands were \$9.332 million, a year-over-year increase of \$1.032 million or 12.4 percent.

M.S. 16A.125 Transfer Certification Report

Management (\$6,040,147)—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. The FY 2017 trust allocation was 45.2 percent of total \$13,369,357 qualifying forest management expenditures (Appendix A).

Forest Improvement (\$1,617,012)—Activities include site preparation and reforestation, regeneration surveys, and timber stand improvement (TSI) activities 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. The FY 2017 trust allocation was 45.2 percent of total \$3,579,120 qualifying improvement expenditures (Appendix A).

Forest Roads (\$220,774)—State forest roads provide direct access to a relatively small portion of trust lands. Road costs are prorated to the trust based on the number of acres within one-half mile of designated state forest system roads. The FY 2017 trust allocation was 9.4 percent of the total \$2,342,678 qualifying roads expenditures (Appendix A).

Administration (\$1,454,526)—Department administrative services provided to the Division of Forestry and Division of Forestry administrative activities include: leadership services, human resources, accounting, general office and clerical, and other direct and necessary costs related to the support of staff that generates revenue. Administrative costs are prorated based on the ratio of trust land expenditures to net qualifying expenditures for: management, improvement, and roads including general operations allocations. The FY 2017 trust allocation was 40.8 percent of the total \$3,561,784 qualifying administration expenditures (Appendix A).

II. OPERATING RESULTS

DNR-Forestry timber sales comprise about 30 percent of the state's stumpage market. During FY 2017, new volume offered was 914,294 cords, slightly exceeding the increased timber target of 900,000 cords. Sales volume declined to 778,000 cords from 883,000 cords in FY 2016. The new offer sell rate declined to 89 percent from 91.5 percent in FY 2016. For the second consecutive year, harvest volume (722,000 cords) was well below the 819,000-cord 10-year average due to the relatively warm winter weather that severely limited logging activity. Stumpage prices were negatively impacted by the growing backlog of sold-not harvested inventory which increased at year end to 1.974 million cords from FY 2016 year end 1.789 million cords. Primary end product markets were mixed. Printing-writing papers, two-thirds of instate wood fiber demand, continued the long-term decline with electronic communications incrementally devastating domestic demand. Lumber markets were stable and profitable given new trade duties in place on Canadian softwood lumber. Structural panel markets were highly profitable, driven by the very active hurricane season and stable new home construction.

III. DISTRIBUTION OF SCHOOL TRUST REVENUE

Forest products revenues and certain land use receipts generated from trust lands are deposited directly in the State Forest Suspense Account within the Permanent School Fund. In FY 2017, non-forestry direct appropriations were transferred out of the Forest Suspense Account to the Department of Administration-School Trust Director (\$550,000, 4.8 percent) and DNR-Lands and Minerals Division (\$200,000, 1.7 percent) (Figure 2). Per Minn. Stat. 16A.125, Subd. 5(d), in the order listed, certified forestry costs for management, improvement and roads were transferred to the FMIA (\$7,877,933, 67.4 percent). Certified forestry administrative costs were transferred to the GF (\$1,454,526, 12.5 percent). Certain expenses incurred by the Department of Administration-Trust Director and the Permanent School Fund Commission (PSFC) were reimbursed to the GF from the Forest Suspense Account (\$196,933, 1.7 percent). The net balance was transferred to the Permanent School Fund Investment Account (\$1,383,135, 11.9 percent).

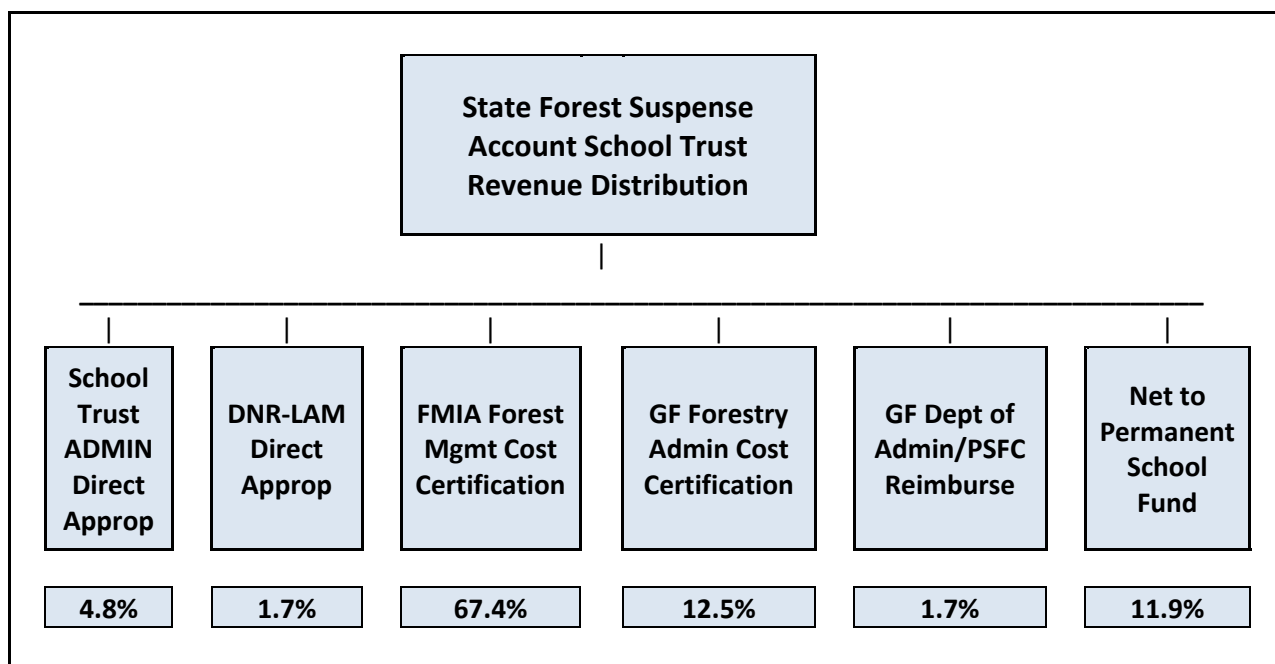


Figure 2: State Forest Suspense Account School Trust Revenue Distribution (M.S. 16A.125 qualifying and non-qualifying).

IV. FORESTRY TRUST COST CERTIFICATION HISTORY

For FY 2017, five-year average state forestry revenue from all managed acres was \$20.816 million. Five-year average qualifying combined trusts revenue was \$10.741 million. The five-year average sum of forestry trust cost certification transfers was \$8.294 million with average forestry net to the trust funds of \$2.447 million. After accounting for non-qualifying trust revenues, non-forestry direct appropriations, and non-forestry GF reimbursements, the five-year average net to the trust funds was \$2.284 million (Table 2a). For FY 2017, five-year average certified forestry costs were as follows: forest management \$5.438 million; forest improvement, \$1.052 million; forest roads \$0.112 million; and administration, \$1.394 million (Table 2b).

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Table 2a: Forest Suspense Account History (School and University)

(amounts in thousands)	FY13	FY14	FY15	FY16	FY17	Avg
Total Forestry Revenue	\$15,931	\$19,809	\$23,713	\$23,062	\$21,567	\$20,816
Forestry Trust Revenue	\$7,792	\$10,140	\$12,447	\$11,869	\$11,456	\$10,741
Cost Transfer to GF	(\$3,551)	(\$1,278)	(\$1,370)	(\$1,267)	(\$1,455)	(\$1,784)
Cost Transfer to FMIA	(\$4,178)	(\$6,607)	(\$6,853)	(\$7,033)	(\$7,878)	(\$6,510)
Sum Cert. Cost Transfers	(\$7,729)	(\$7,885)	(\$8,222)	(\$8,300)	(\$9,332)	(\$8,294)
Forestry Net to Trust	\$64	\$2,254	\$4,224	\$3,569	\$2,124	\$2,447
Non-Forestry Revenues	\$290	\$224	\$205	\$317	\$388	\$285
Non-Forestry Direct Appropriations						
DNR LAM	(\$200)	(\$200)	(\$200)	(\$200)	(\$200)	(\$200)
ADMIN				(\$300)	(\$550)	(\$323)
Non-Forestry Reimbursements						
ADMIN General Fund				(\$178)	(\$192)	(\$185)
PSFC General Fund			(\$4)	(\$10)	(\$5)	(\$7)
Net to Trust	\$154	\$2,278	\$4,226	\$3,197	\$1,565	\$2,284

Table 2b: Forestry Certified Costs History (School and University).

(amounts in thousands)	FY13*	FY14	FY15	FY16	FY17	5-Yr Avg
Protection	\$2,344	\$0	\$0	\$0	\$0	n/a
Forest Management	\$3,828	\$5,404	\$5,898	\$6,021	\$6,040	\$5,438
Forest Improvement	\$789	\$1,136	\$845	\$874	\$1,617	\$1,052
Forest Roads	\$26	\$67	\$109	\$138	\$221	\$112
Administration	\$1,603	\$1,278	\$1,370	\$1,267	\$1,455	\$1,394
Total	\$8,590	\$7,885	\$8,222	\$8,300	\$9,332	\$8,466

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

Explanation of Table 2b Color-codes

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

- Forest Management, Forest Improvement, and Forest Road Costs are transferred to FMIA.
- Administration transferred to GF; effective FY14, protection costs are non-qualifying.

V. DNR-FORESTRY TIMBER PROGRAM

In FY 2017, DNR-Forestry sold 878,000 cords and harvested 722,000 cords, all species, products, and units of measure. In FY 2017, school trust land (STL) accounted for 428,650 cords sold, 49.6 percent of volume sold, 328,480 cords scaled, and 47 percent of cords harvested and scaled (Figure 3). For the past two fiscal years, DNR-Forestry and STL volumes scaled were well below average due to warm weather limiting winter logging activity.

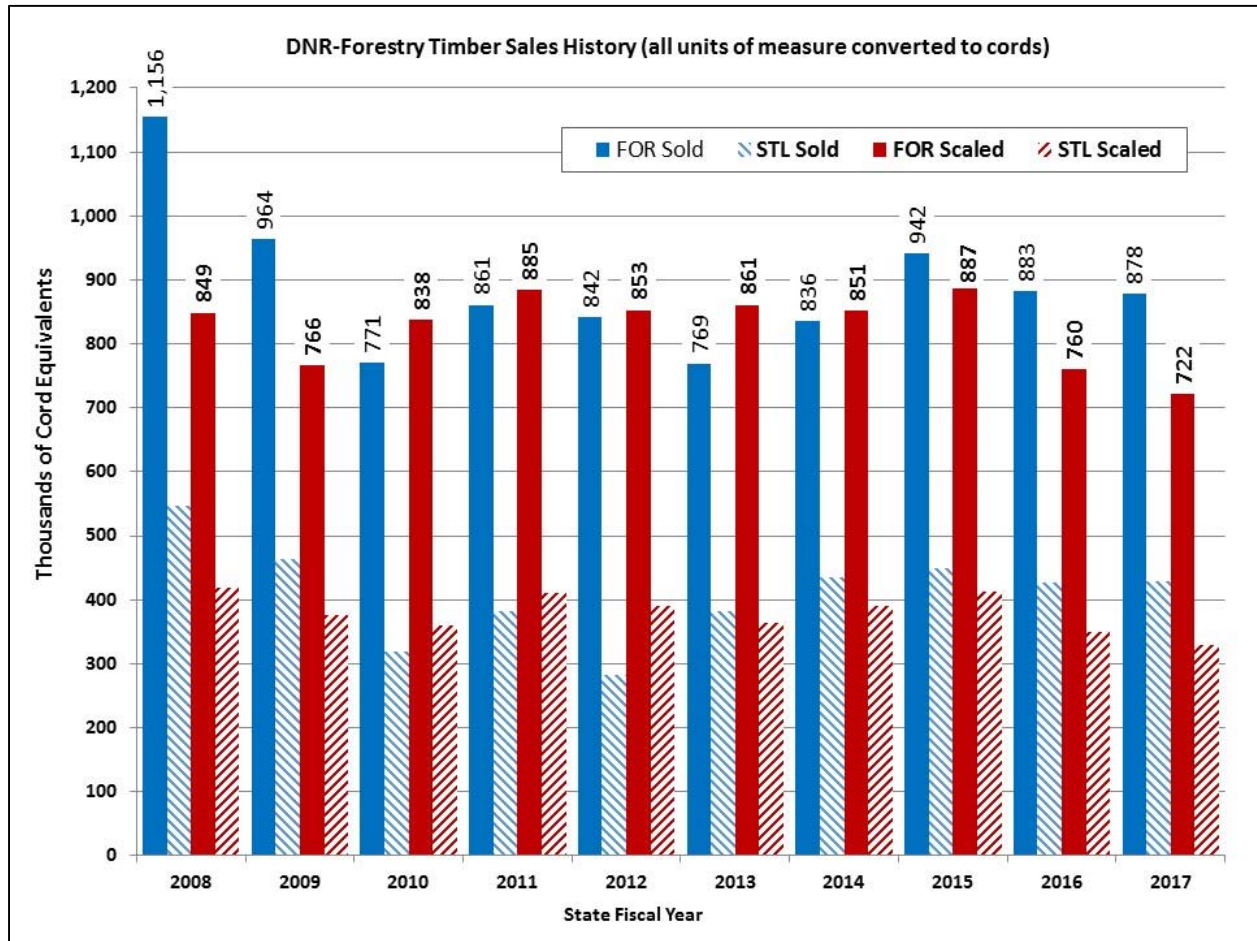


Figure 3: DNR-Forestry 10-Year Timber Sales History, Volumes Sold and Harvested.

The unusually large volumes sold in FY 2008-09 were due to the re-offering of about 700,000 cords equivalents of timber sales that were forfeited without penalty in FY 2007 under the legislatively authorized “Logger Relief” program.

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In FY 2017, the average price received for timber sold decreased to \$27.81 per cord compared to \$29.84 in FY 2016, a 6.8 percent decrease year-over-year. In FY 2017, the average price received for timber scaled (harvested) decreased to \$26.31 per cord as compared to \$28.01 in FY 2016, a 6.1 percent decrease year-over-year (Figure 4). Non-salvage DNR timber permits are valid for three years from the sale date. In a given fiscal year, timber sales revenue is a combination of a 15 percent down payment from new sales and , the 85 percent balance due from harvested sales.

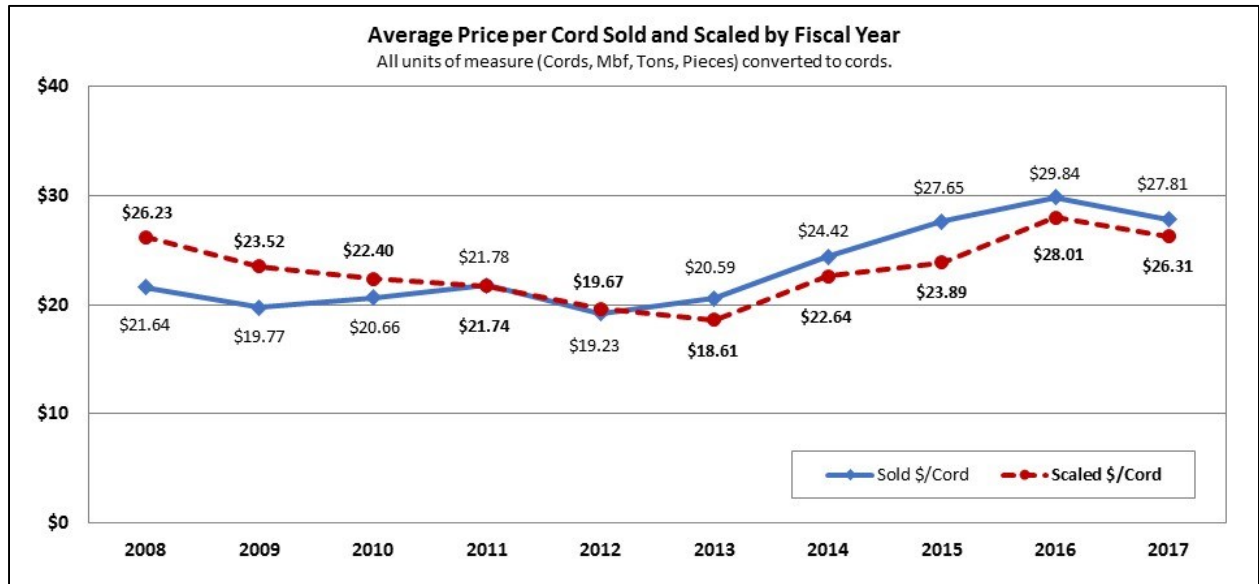


Figure 4: DNR-Forestry 10-Year History Average Prices Received for Timber Sold and Scaled.

Due to the timber market collapse that began in August 2006, the average price per cord sold for state timber dropped by about two-thirds in FY 2009 compared to the value received in FY 2005. Many of the sales that were sold in FY 2005-06 for \$60-plus per cord were forfeited and then resold in subsequent years for \$20 per cord or less. Due to the harvest of windstorm-damaged salvage timber sales in FY 2012-13, the average price per cord of timber harvested (scaled) decreased. Local market scarcity, driven by tight aspen supply, drove price increases in FY 2014-16. In FY 2017, below average harvest volume added to the growing backlog of sold-not harvested inventory that pulled prices downward.

VI. FINANCIAL PERFORMANCE COMPARISONS

Per Minn. Stat. 16A.125, Subd. 5(c) effective July 1, 2013, “the [cost] certificate shall include an analysis that compares costs certified under this section with costs incurred on other public and private lands with similar land assets.” This topic was addressed in the recently completed Office of the Legislative Auditor (OLA) Evaluation Report on DNR Forest Management.¹ In this report, OLA concluded “...that differences in forest management goals, policies, and land features prevent meaningful comparisons of profitability between state forest managers and other land managers” (2014 OLA Report, p81). However, the OLA report included an “efficiency” comparison between DNR’s combined Tower, Hibbing, and Cloquet forestry areas and Saint Louis County (SLC) Minnesota Land Department. The basis for comparison was new cords offered per full-time equivalent (FTE). OLA found “...the efficiency of the [DNR] Forestry Division’s timber sales activity compared favorably with SLC’s activity” (2014 OLA Report, p87). With that being said, a comparative analysis of financial performance is provided with the following caveats:

1. Profit potential, a function of land productivity, species/product mix, management policy, and geography, is somewhat variable within the Upper Midwest region and relatively low when compared with the Pacific Northwest and Southern U.S.
2. Availabilty of detailed financial reporting in the public domain is extremely limited.
3. Organizational differences in land and resource management entities result in a variety of combinations of land related management activities including: forestry, real estate, minerals, and recreation.
4. Sources of revenue and other funding are highly variable between organizations.
5. Cost accounting formats are not uniform among land management organizations; available accounting numbers require a range of adjustments to be somewhat comparable.
6. With one exception, financials are self reported and unaudited.

The analysis of financial performance included: profit potential, profitability, management efficiency, and land productivity. Of the land managing entities analyzed, operating margins ranged from -31.4 percent (CNF) to 59.1 percent (PCH), with DNR-Forestry managed school trust reporting an operating margin of 17.3 percent (Table 3). Profit potential (gross revenue per cord sold) ranged from \$23.13 (School Trust) per cord to \$88.34 per cord (PCH). In terms of management efficiency, cost per cord ranged from \$14.54 per cord (CAS) to \$49.19 per cord (CNF) with DNR-Forestry managed school trust reporting \$24.08 per cord. Of note, the school trust cost per cord increase was partially due to below average harvest volume. In terms of land productivity/policy, cords harvested per managed acre ranged from 0.20 (CNF) to 1.16 (PCH) with DNR-Forestry managed school trust land reporting an average 0.23 cords harvested per managed acre.

¹ Office of the Legislative Auditor, Program Evaluation Division. 2014. Evaluation Report DNR Forest Management. Saint Paul, MN: Office of the Legislative Auditor, State of Minnesota. 107p.

M.S. 16A.125 Transfer Certification Report

Table 3: Minn. Stat. 16A.125, Subd. 5.c - Financial Performance Comparisons. (a)

(amounts in thousands, except as noted)	DNR-STL School Trust FY2017	CAS County CY2016	SLC County CY2016	CNF Federal FY2017	PCH REIT CY2016
REVENUES					
Timber Sales (Stumpage)	\$10,034.6	\$1,833.0	\$4,639.8	\$3,284.2	\$138,580.0
Land Use	\$1,168.4	\$125.1	\$803.9	\$152.7	
Total Revenue	\$11,203.0	\$1,958.1	\$5,443.8	\$3,437.0	\$138,580.0
EXPENSES					
Total Forest Mgmt Expenditure	\$9,260.8	\$1,001.8	\$4,196.8	\$4,515.6	\$56,662.0
INCOME FROM OPERATIONS					
Profit/(Loss) from Operations	\$1,942.2	\$956.3	\$1,246.9	(\$1,078.7)	\$81,918.0
PROFIT POTENTIAL					
Gross Timber Rev per Cord Sold (b)	\$23.13	\$29.13	\$24.11	\$35.52	\$88.34
Gross Revenue per Mgmt Acre	\$8.30	\$11.00	\$8.66	\$7.48	\$102.65
PROFITABILITY					
Operating Margin	17.3%	48.8%	22.9%	-31.4%	59.1%
Operating P/(L) per Cord Harvested (c)	\$5.79	\$12.77	\$8.27	-\$11.84	\$52.22
MGMT EFFICIENCY					
Cost per cord (d)	\$24.08	\$14.54	\$24.45	\$49.19	\$36.12
LAND PRODUCTIVITY					
Cords Harvested per Mgmt Acre	0.25	0.42	0.23	0.20	1.16
STATISTICAL DATA					
Fiscal Year End	June 30	Dec 31	Dec 31	Sept 30	Dec 31
Cords Sold	433.8	62.9	192.4	92.5	1,568.7
Cords Harvested	335.4	74.9	150.8	91.1	1,568.7
Average of Cords Sold & Harvested	384.6	68.9	171.6	91.8	1,568.7
Timber Mgmt Acres (e)	1,349.5	178.0	628.8	459.3	1,350.0
Total Admin Acres	2,520.3	255.7	890.4	666.5	1,374.0

Table Notes

- a) Comparisons are: Cass County MN (CAS), data source = CAS Land Dept. Annual Report and direct contact; Saint Louis County MN (SLC), data source = direct contact financial data request; Chippewa National Forest MN (CNF), data source = direct contact financial data requests; Potlatch Timber REIT-Resource Management Segment AL, AR, ID, MN, MS (PCH), data source = PCH 10K Annual Report. Minnesota ownership = 155,000 acres or 11.3% of total ownership acres.
- b) Timber sales revenue divided by cords sold.
- c) P/(L) from operations divided by cords harvested.
- d) Total forest mgmt. expenditure divided by average of cords sold & harvested.
- e) School trust timber mgmt. acres estimated using 2017 data from Paul Olson, DNR-MNIT.

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Historical comparisons of operating margins are provided with the same caveats as the annual comprehensive financial comparisons. Over the past four years, DNR-Forestry managed school trust land (DNR-STL) operating margins ranged from a high 33.6 percent in FY 2015 to a low 17.3 percent in FY 2017 (Figure 5). To date, DNR-STL operating margins have been in close proximity to SLC, about median compared with other managing entities.

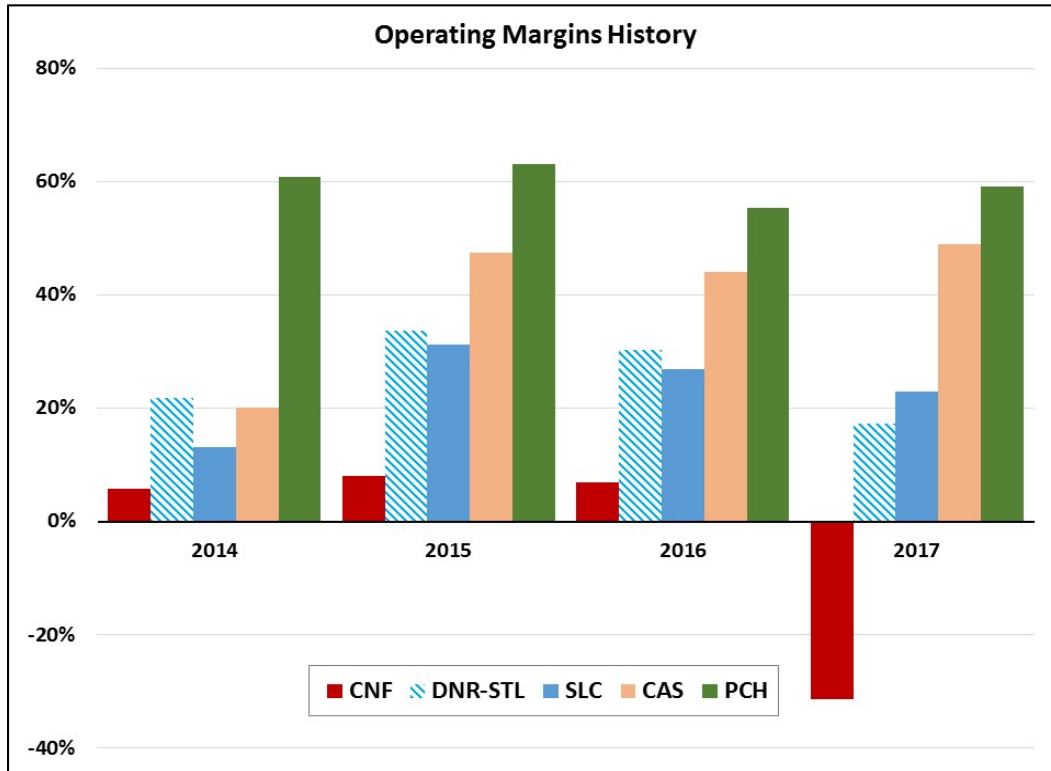


Figure 5: Minn. Stat. 16A.125 Subd. 5.c. Operating Margins History.

The operating margin measures the amount of money retained as profit for each dollar received in revenue.

Forestry operating margins can be very volatile from year to year. The biggest influence is market price changes but there are other important factors as well. Recent warm winters have not allowed access to many harvest sites, which restricts revenue. As a result, it has been necessary to issue permit extensions which is increasing the amount of wood sold but not yet harvested. That wood will likely be harvested in future years; however, the revenue return is being delayed due to warm weather.

Also, last year the legislature increased appropriations for forest investments, such as tree planting and timber stand improvement. These increased costs reduce the operating margin now, but will result in increased revenue in future years.

The operating profit per cord is another measure of profitability. Profit per cord is measured by taking the net total profit or loss and dividing it by the number of cords of wood harvested. The

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resulting number will give the average amount of money made or lost on each cord of wood harvested. During fiscal year 2017, the school trust lands had an average profit of \$5.79 per cord of wood harvested. The same factors influencing the operating margin affect the operating profit per cord.

Appendix A: Minn. Stat. 16A.125 Cost Allocation for Fiscal Year 2017

A. Base Data from Division of Lands and Minerals, Division of Forestry and MN.IT

Acres of Permanent School Fund Land Subject to Cost Certification	2,370,418
Acres of University Trust Fund Land Subject to Cost Certification	18,345
Total Acres of Trust Fund Land Subject to Cost Certification	2,388,763
Total Trust Acres Served by State Forest Roads	498,278
Total Acres of State Land Subject to Forest Management Activities	5,287,326

Net Qualifying Forestry Expenditures Paid From the General Fund and FMIA Fund	\$22,852,939
Direct Costs of Forestry Activities (Admin, Fleet, Management, Improvement, Roads)	\$15,912,015
Net Qualifying Forestry General Operations (Support) Costs	\$6,940,925

B. Forest Management Costs for Trust Lands

1. Management Cost Determination:

Qualifying Forestry General Fund/FMIA Direct Costs for Management	\$2,337,905
Management Portion of Forestry General Operating GF/FMIA Costs	\$1,084,061
Net Management Costs to be Allocated	\$3,421,966
Net Management Cost Per Acre ⁽¹⁾	\$0.65
School Trust Mgmt. Cost (school acres times cost per acre)	\$1,534,138
University Trust Mgmt. Cost (university acres times cost per acre)	\$11,873

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

2. Timber Sales Cost Determination:

Qualifying Forestry General Fund/FMIA Direct Costs for Timber Sales	\$6,796,111
Timber Sales Portion of Forestry General Operating GF/FMIA Costs	\$3,151,280
Net Timber Sales Costs to be Allocated	\$9,947,391
Net Timber Sales Cost Per Acre ⁽¹⁾	\$1.88
School Trust Timber Sales Cost (school acres times cost per acre)	\$4,459,622
University Trust Timber Sales Cost (university acres times cost per acre)	\$34,514

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

3. Total General Fund/FMIA Forest Management Costs for Trust Lands:

Sum of Forest Mgmt. Costs for School Trust Lands	\$5,993,760
Sum of Forest Mgmt. Costs for University Trust Lands	\$46,387

C. Forest Improvement Costs for Trust Lands

Qualifying Forestry General Fund/FMIA Forest Improvement Costs	\$2,445,274
Forest Improvement Portion of Forestry General Operating GF/FMIA Costs	\$1,133,846
Net Forest Improvement Costs	\$3,579,120
Net Forest Improvement Cost Per Acre ⁽¹⁾	\$0.68
School Trust Forest Improvement Cost (school acres times cost per acre)	\$1,604,594
University Trust Forest Improvement Cost (university acres times cost per acre)	\$12,418

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

D. Forest Road Costs for Trust Lands

Qualifying Forestry General Fund/FMIA State Forest Road Costs	\$1,600,530
State Forest Roads Portion of Forestry General Operating GF/FMIA Costs	\$742,148
Net State Forest Road Costs	\$2,342,678
Trust Land Acreage as a Percentage of Total Acres Served by State Forest Roads	9.42%
State Forest Road Costs Allocated to Trust Lands	\$220,774
Trust Land Forest Road Cost Per Acre ⁽¹⁾	\$0.09
School Trust Forest Road Cost (school acres times cost per acre)	\$219,079
University Trust Forest Road Cost (university acres times cost per acre)	\$1,695

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

E. Administrative Costs for Trust Lands

Qualifying Forestry General Fund/FMIA Administrative Costs	\$2,732,194
Administrative Portion of Forestry General Operating GF/FMIA Costs	\$829,590
Net Administrative Costs	\$3,561,784
Sum of Mgmt., Improvement, and Roads Trust Costs with General Ops	\$7,877,933
Total Qualifying General Fund/FMIA Costs Less Admin	\$19,291,155
Trust Costs as a Percentage of Total Qualifying GF/FMIA Costs	40.84%
Trust Portion of Administrative Cost	\$1,454,526
Net Trust Land Administrative Cost Per Acre ⁽¹⁾	\$0.61
School Trust Administrative Cost (school acres times cost per acre)	\$1,443,356
University Trust Administrative Cost (university acres times cost per acre)	\$11,170

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