

Legislative Permanent School Fund Commission

Revised Agenda - Thursday, December 13, 2018 – 10:00 a.m.

State Office Building – Room 10

(Revisions: ¹ item added, ² adjusted order)

- I. Call to Order
- II. Approval of Minutes from 05/14/2018
- III. Comments by DNR Commissioner Landwehr & Director Vande Linde **(5 minutes)** ¹
 1. Comments by attendees of the Western State Land Commission Association Conference & Advocates for School Trust Lands Conference (July 2018). **(5 minutes - attendees)**
- IV. Annual DNR Forestry revenue and expenditure presentation. **(10 minutes - Meier/DNR Forestry)**
- V. 2019-2020 Legislative Initiatives **(45 minutes total)**
 1. 16A.125 administrative modifications **(Vande Linde/Meier – See Tab C)** ²
 - a. Submittal of Cost Certification report to PSFC
 - b. Clarify order of recapturing costs
 - c. Redirect admin costs to a School Trust reforestation account vice the general fund
 2. Funding source options to satisfy cost condemnation of non-revenue producing trust parcels. (Modify MN Statutes Section 16A.152) **(Chair - See Tab A)**
 - a. Annual fund sweep to a working account similar to how the budget reserve account is funded with an annual sweep cap, and total amount to be swept
 - b. One time sweep for total required transferred to a working account.
 - c. One time sweep, with some going to corpus, some going as one-time disbursement to schools
 3. 127A.30 modifications PSFC authority and operations **(Vice Chair - See Tab B)**
 - a. No less than every quarter - meeting requirement
 - b. Mandatory referral of all bills impacting trust lands to PSFC for a review and recommendation
 - c. Formal policy and finance charter
 - d. Formal PSFC biennium budget request via State Gov. Finance
 4. Defining what constitutes the “CORPUS” of the Permanent School Fund **(Vande Linde)**
 5. Office School Trust Lands Staffing – dedicated financial staff, MAD report recommendation **(Vice Chair)**
- VI. Future PSFC meeting agenda items - after new members are seated **(5 minutes/Chair)**
 1. DNR School Trust Compensation Report (MN Statute 84.027 subd. 18(b))
 2. MAD report
 3. OLA report
 4. BWCAW support letter.
- VII. Next commission meeting - Jan 2019 after 2019-2020 PLSFC members are appointed. Contact your respective leadership to be reappointed, if leaving please help find a replacement **(2 minutes/Chair)**
- VIII. Adjourn

Tab A - LPSTC Agenda item V.1 for discussion purposes only

Draft Proposal - Not for introduction - please provide recommendations to Rep. Dale Lueck at rep.dale.lueck@house.mn

- 1.1 A bill for an act
- 1.2 relating to permanent school fund; appropriating money based on general fund
- 1.3 forecast to compensate permanent school fund for certain lands; amending
- 1.4 Minnesota Statutes 2018, section 16A.152, subdivisions 1b, 2.
- 1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
- 1.6 Section 1. Minnesota Statutes 2018, section 16A.152, subdivision 1b, is amended to read:
- 1.7 Subd. 1b. **Budget reserve level.** (a) The commissioner of management and budget shall
- 1.8 calculate the budget reserve level by multiplying the current biennium's general fund
- 1.9 nondedicated revenues and the most recent budget reserve percentage under subdivision 8.
- 1.10 (b) If, on the basis of a November forecast of general fund revenues and expenditures,
- 1.11 the commissioner of management and budget determines that there will be a positive
- 1.12 unrestricted general fund balance at the close of the biennium and that the provisions of
- 1.13 subdivision 2, paragraph (a), clauses (1), ~~(2)~~, ~~(3)~~, and ~~(4)~~ to (6), are satisfied, the
- 1.14 commissioner shall transfer to the budget reserve account in the general fund the amount
- 1.15 necessary to increase the budget reserve to the budget reserve level determined under
- 1.16 paragraph (a). The amount of the transfer authorized in this paragraph shall not exceed 33
- 1.17 percent of the positive unrestricted general fund balance determined in the forecast.
- 1.18 Sec. 2. Minnesota Statutes 2018, section 16A.152, subdivision 2, is amended to read:
- 1.19 Subd. 2. **Additional revenues; priority.** (a) If on the basis of a forecast of general fund
- 1.20 revenues and expenditures, the commissioner of management and budget determines that
- 1.21 there will be a positive unrestricted budgetary general fund balance at the close of the

2.1 biennium, the commissioner of management and budget must allocate money to the following
 2.2 accounts and purposes in priority order:

2.3 (1) the cash flow account established in subdivision 1 until that account reaches
 2.4 \$350,000,000;

2.5 (2) the budget reserve account established in subdivision 1a until that account reaches
 2.6 \$1,596,522,000;

2.7 (3) the amount necessary to increase the aid payment schedule for school district aids
 2.8 and credits payments in section 127A.45 to not more than 90 percent rounded to the nearest
 2.9 tenth of a percent without exceeding the amount available and with any remaining funds
 2.10 deposited in the budget reserve;

2.11 (4) the amount necessary to restore all or a portion of the net aid reductions under section
 2.12 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75,
 2.13 subdivision 5, by the same amount; ~~and~~

2.14 (5) the clean water fund established in section 114D.50 until \$22,000,000 has been
 2.15 transferred into the fund; and

2.16 (6) the amount necessary to compensate the school trust lands account established in
 2.17 section 92.83 until \$100,000,000 has been transferred to the permanent school fund but not
 2.18 more than \$10,000,000 in any one fiscal year in order to compensate Minnesota's school
 2.19 trust as required by section 84.027, subdivision 18, paragraphs (b) and (c).

2.20 (b) The amounts necessary to meet the requirements of this section are appropriated
 2.21 from the general fund within two weeks after the forecast is released or, in the case of
 2.22 transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations
 2.23 schedules otherwise established in statute. The amount necessary to meet the requirements
 2.24 under paragraph (a), clause (6), is appropriated from the general fund to the commissioner
 2.25 of natural resources within two weeks after the forecast is released.

2.26 (c) The commissioner of management and budget shall certify the total dollar amount
 2.27 of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education.
 2.28 The commissioner of education shall increase the aid payment percentage and reduce the
 2.29 property tax shift percentage by these amounts and apply those reductions to the current
 2.30 fiscal year and thereafter.

2.31 (d) Paragraph (a), clause (5), expires after the entire amount of the transfer has been
 2.32 made.

**Draft Proposal - Not for introduction - please provide recommendations to Rep.
 Dale Lueck at rep.dale.lueck@house.mn**

Tab B - For discussion purposes only



MEMO

To: Sen. Jerry Newton
From: Aaron Vande Linde, School Trust Lands Director
Date: September 14, 2018
Re: Proposed changes to School Trust Legislation

As you requested, we have reviewed S.F. 2189 to determine any recommended amendments/changes to the 2017 proposed legislation. The Office of School Trust Lands recommends the following:

1. Lines 3.12–3.20: We are currently working with DNR on a joint legislative initiative regarding compensation for prior designations or policy provisions that prohibit long-term economic returns.
2. Lines 3.29–3.32: We are currently working with DNR on a joint legislative initiative regarding compensation for future designations or policies that prohibit the long-term economic return on school trust lands.
3. Line 6.27: Add the school trust lands director to the Mineral Coordinating Committee.
4. Lines 9.19-9.23: Amend language as follows. ~~The first meeting of the commission shall be convened by the chair of the Legislative Coordinating Commission.~~ Members shall elect a chair, vice-chair, secretary, and other officers as determined by the commission. The chair ~~may~~ or vice-chair shall convene ~~meetings as necessary~~ a meeting at least once each quarter to conduct the duties prescribed by this section.
5. Line 10.14: Amend language as follows: The school trust lands director shall:
(1) act in a fiduciary capacity to the trust beneficiaries in accordance with the principles set forth in Section 127A.351;
(2) take an oath of office before assuming any duties as the director as follows: "I solemnly swear to carry out my duties as the school trust lands director with undivided loyalty to the beneficiaries, to the best of my abilities and according to law."

Additionally, we recommend further amending Minnesota Statutes 2017, section 127A.353, as follows:

Subd. 2. Qualifications. The governor shall select the school trust lands director on the basis of outstanding professional qualifications and knowledge of finance, business practices, minerals, forest and real estate management, and the fiduciary responsibilities of a trustee to the beneficiaries of a trust. The school trust lands director serves in the unclassified service for a term of four years. The first term shall end on December 31, 2020. The governor may remove the school trust lands director ~~for cause~~ only (A) for neglect of fiduciary duty, malfeasance, gross negligence, or incapacitation; and (B) by majority vote of all members of the Legislative Permanent School Fund Commission in an open and public meeting after proper notice and the inclusion of the removal item on the agenda. The

Tab B - For discussion purposes only

termination of an individual under this Subdivision 2 is effective immediately and creates a vacancy in the position of the director. If a director resigns or is removed for cause, and the governor shall appoint a director for the remainder of the term.

Subd. 4. Duties; powers. (a) The school trust land director shall:

(1) take an oath of office before assuming any duties as the director;

(2) evaluate the school trust land asset position;

(3) determine the estimated current and potential market value of school trust lands;

(4) advise and provide recommendations to the governor on school trust land management policies and other policies that may affect the goals of Section 127A.31;

(5) advise and provide recommendations to the Executive Council and Land Exchange Board on all matters regarding school trust lands presented to either body; of natural resources, and the Legislative Permanent School Fund Commission on the management of school trust lands, including:

(6) advise and provide recommendations to the commissioner of natural resources on the management of school trust lands, including but not limited to:

(i) Department of Natural Resources school trust land management plans;

(ii) leases of school trust lands;

(iii) royalty agreements on school trust lands;

(iv) land sales and exchanges;

(v) cost certification; and

(vi) revenue generating options;

(7) serve as temporary trustee of school trust land for school trust lands subject to proposed or active eminent domain proceedings;

(8) serve as temporary trustee of school trust lands pursuant to Section 94.342 subd. 5;

~~(9)~~ (9) submit to the Legislative Permanent School Fund Commission for review an annual budget and management plan for the director which includes proposed to the Legislative Permanent School Fund Commission legislative changes that will improve the asset allocation of the school trust lands;

~~(10)~~ (10) develop a ten-year strategic plan and a 25-year framework for management of school trust lands, in conjunction with the commissioner of natural resources, that is updated every five years and implemented by the commissioner, with goals to:

(i) retain core real estate assets;

(ii) increase the value of the real estate assets and the cash flow from those assets;

(iii) rebalance the portfolio in assets with high performance potential and the strategic disposal of selected assets;

(iv) establish priorities for management actions; and

(v) balance revenue enhancement and resource stewardship;

~~(7) submit to the Legislative Permanent School Fund Commission for review an annual budget and management plan for the director; and~~

Tab B - For discussion purposes only

(11) keep the beneficiaries, governor, legislature, and the public informed about the work of the director by reporting to the Legislative Permanent School Fund Commission in a public meeting at least once during each calendar quarter.

(b) In carrying out the duties under paragraph (a), the school trust lands director shall have the authority to:

(1) direct and control money appropriated to the director;

(2) establish job descriptions and employ staff ~~up to five employees in the unclassified service,~~ within the limitations of money appropriated to the director;

(3) enter into interdepartmental agreements with any other state agency;

(4) enter into joint powers agreements under chapter 471;

(5) evaluate and initiate real estate development projects on school trust lands with the advice of the Legislative Permanent School Fund Commission in order to generate long-term economic return to the permanent school fund; and

(6) submit recommendations on strategies for school trust land leases, sales, or exchanges to the commissioner of natural resources and the Legislative Permanent School Fund Commission.

Tab C - For discussion Purposes Only

16A.125 STATE TRUST LANDS.

§ Subd. 5. Forest trust lands. (a) The term "state forest trust fund lands" as used in this subdivision, means public land in trust under the Constitution set apart as "forest lands under the authority of the commissioner" of natural resources as defined by section 89.001, subdivision 13.

(b) The commissioner of management and budget shall credit the revenue from the forest trust fund lands to the forest suspense account. The account must specify the trust funds interested in the lands and the respective receipts of the lands.

(c) After a fiscal year, the commissioner of management and budget shall certify the costs incurred for forestry during that year under appropriations for the improvement, administration, and management of state forest trust fund lands and construction and improvement of forest roads to enhance the forest value of the lands. The certificate must specify the trust funds interested in the lands. The certificate must not include costs incurred for reforestation. After submittal presentation to the Legislative Permanent School Fund Commission, the commissioner of natural resources shall supply the commissioner of management and budget with the information needed for the certificate. The 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.

(d) After a fiscal year, the commissioner shall distribute the receipts credited to the suspense account during that fiscal year in the following order as follows:

(1) First, the amount of the certified costs incurred by the state for forest management, forest improvement, and road improvement during the fiscal year shall be transferred to the forest management investment account established under section 89.039;

(2) Second, the amount of costs incurred by the Legislative Permanent School Fund Commission under section 127A.30, and by the school trust lands director under section 127A.353, shall be transferred to the general fund;

(3) Third, the balance of the certified costs incurred by the state during the fiscal year shall be transferred to the general fund state forest development account to be used solely for the reforestation of state forest trust fund lands in direct proportion to state forest trust fund lands that produced the revenues;

(4) the balance of the receipts shall then be returned prorated to the trust funds in proportion to their respective interests in the lands which produced the receipts.

(5) in the event that forestry certified costs exceed available revenues, the commissioner of management and budget will transfer the difference from the general fund into the forest management investment account. The general fund transfer must not exceed the amount of funds appropriated to non-forest management accounts during the year.

Tab C - For discussion Purposes Only

Subd. 5a.Appropriation from state forest development account. Money accruing and credited to the state forest development account is appropriated to the Division of Forestry in the Department of Natural Resources to apply state forest resource management policy and plans to forest trust fund lands. The appropriation is supervised and controlled by the commissioner of natural resources.

The appropriation shall be spent according to law and remains available until spent. The appropriation is not available for spending until any estimates required by law are approved by the commissioner of management and budget. An obligation to spend money may not be made unless there is an available balance not otherwise encumbered in the appropriation.