

Minnesota Department of Natural Resources, Division of Forestry M.S. 16A.125,
Subd 5. Certification Report, State Forest Suspense Account 2019

REVENUES	School Susp. Fund: 3800	Univ. Susp. Fund: 2000	School+Univ. Susp. Total
[A] Revenues Forestry Qualifying	13,784,776	623,171	14,407,947
[B] Revenues Non-Qualifying	327,865	0	327,865
[C] Total Revenues	14,112,641	623,171	14,735,812

DIRECT APPROPRIATIONS, EXPENDITURES, AND REIMBURSEMENTS

Non-Forestry Direct Appropriations Transferred Out of Forest Suspense Account

DNR Lands and Minerals			
Legal Citation: 17 093 01 003 02C	(212,000)	0	(212,000)
DNR Lands and Minerals CANCELED			
Legal Citation: 17 093 01 003 02C	10,257	0	10,257
Dept. of Admin Trust Director			
Legal Citation: 17 093 01 09A 000	(300,000)	0	(300,000)
Dept. of Admin Trust Director CANCELED			
Legal Citation: 17 093 01 09A 000	213	0	213
[D] Total Non-Forestry Direct Appropriations	(501,530)	0	(501,530)

Total Revenues Minus Direct Appropriations	13,611,111	623,171	14,234,282
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Expenses - Forestry Qualifying

[E] Management	(5,935,144)	(45,933)	(5,981,077)
[F] Improvement	(1,340,838)	(10,377)	(1,351,215)
[G] Forest Roads	(267,012)	(2,066)	(269,078)
[H] Administration	(1,486,389)	(11,503)	(1,497,892)
[J] Forestry Certified Costs	(9,029,383)	(69,879)	(9,099,262)

Non-Forestry Reimbursements to General Fund

Dept. of Admin Trust Director			
Legal Citations: 171 004 01 011 003 and Minn. Stats. 18, Ch. 16A.125, Subd. 5(d)(2)	(183,836)	0	(183,836)
Legislative Permanent School Fund Commission (LPSFC)			
Legal Citations: 171 004 01 002 004 and Minn. Stats. 18, Ch. 16A.125, Subd. 5(d)(2)	(8,385)	0	(8,385)
[K] Total Non-Forestry Reimbursements	(192,221)	0	(192,221)

NET INCOME

[L] Forestry Net to Trust Funds ⁽¹⁾	4,755,393	553,292	5,308,685
[M] Net to Permanent Trust Funds ⁽²⁾	4,389,507	553,292	4,942,799

Transfers to Other Funds Per M.S. 16A.125, Subd. 5(d)	School Susp. Fund: 3800	Univ. Susp. Fund: 2000	School+Univ. Susp. Total
Transfer to the Forest Management Investment Account			
M.S. 16A.125, Subd. 5(d)(1) Transfer ⁽³⁾	(7,542,994)	(58,376)	(7,601,370)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(2) Transfer ⁽⁴⁾	(192,221)	0	(192,221)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(3) Transfer ⁽⁵⁾	(1,486,389)	(11,503)	(1,497,892)
Total M.S. 16A.125 Transfers to Other Funds	(9,221,604)	(69,879)	(9,291,483)

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 LPSFC 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:

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Director
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Date: _____

Date: _____

2019 M.S. 16A.125 Transfer Certification Report

The purpose of this report is to provide an annual accounting of the gross and net income to the Permanent School Trust Fund and University Trust for state administered forest management. This report details the costs associated with those management activities which are required to produce timber sales and certain surface land use revenues before the net profits are transferred to the trusts. In addition, this report identifies Minnesota Office of School Trust Lands and other non-forestry expenditures drawn from the State Forest Suspense Account within the Permanent School Fund to fully document how Forest Suspense Account revenues from state managed trust lands are distributed.



Division of Forestry

February 10, 2020

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

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Description of Cost	Further explanation if necessary	Amount
Staff time (salary & fringe)	140 hours @ \$57/hour	\$7,980
Duplication	nominal	
Other	nominal	
TOTAL TO PREPARE REPORT		\$7,980

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 lakeshore leases are excluded. Minnesota Laws of 2012, Chapter 249, Section 3, Subd.5c amended 16A.125 to remove wildfire protection from certifiable costs effective July 1, 2013.

EXECUTIVE SUMMARY

Minnesota Department of Natural Resources (DNR) 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) 2019, qualifying revenue from DNR managed trust lands totaled \$14.408 million, an increase of \$0.877 million or 6.5 percent compared to FY 2018 (Table 1). FY 2019 net qualifying forestry expenditures for DNR managed trust lands totaled \$9.099 million, a decrease of \$0.160 million or 1.7 percent compared to FY 2018. FY 2019 total volume scaled (harvested) from trust lands was 461,937 cord equivalents, an increase of 43,880 cord equivalents or 10.5 percent year-over-year. In FY 2019, the average value of wood scaled (harvested) was \$27.54 per cord equivalent, a decrease of \$0.28 per cord or 1.0 percent year-over-year.

Table 1: FY2019 Minn. Stat. 16A.125 Forest Suspense Account Forestry Financial Results (a)

FORESTRY REVENUES	FY2018	FY2019	YoYΔ\$ (b)	YoYΔ% (c)
Timber Sales	\$11,863,923	\$12,674,780	\$810,856	6.8%
TS Interest & Penalty	\$3,241	\$6,950	\$3,708	114.4%
Res Mgmt. Access	\$2,486	\$1,346	(\$1,139)	-45.8%
Land Use	\$1,661,722	\$1,724,871	\$63,149	3.8%
Revenues Summary	\$13,531,372	\$14,407,947	\$876,574	6.5%
FORESTRY EXPENSES				
Management	\$5,673,791	\$5,981,077	\$307,286	5.4%
Improvement	\$1,906,138	\$1,351,215	(\$554,923)	-29.1%
Forest Roads	\$123,733	\$269,078	\$145,345	117.5%
Administration	\$1,555,290	\$1,497,892	(\$57,398)	-3.7%
Expenses Summary	\$9,258,952	\$9,099,262	(\$159,690)	-1.7%
Forestry Operating Income	\$4,272,420	\$5,308,685	\$1,036,264	24.3%
Forestry Operating Margin	31.6%	36.8%	na	5.3%
TIMBER VOLUMES & PRICES	FY2018	FY2019	YoYΔ\$	YoYΔ%
Volume Sold (cords)	461,781	410,875	(50,906)	-11.0%
Average Sold Price (per cord)	\$28.82	\$25.01	(\$3.81)	-13.2%
Volume Scaled (cords)	418,057	461,937	43,880	10.5%
Average Scaled Price (per cord)	\$27.82	\$27.54	(\$0.28)	-1.0%

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

b) Year-over-year change in dollar value.

c) Year-over-year change percentage.

M.S. 16A.125 Transfer Certification Report

Per Minn. Stat. 16A.125, Subd. 5(d), this report documents forestry cost recovery which consists of: (i) the transfer of funds from the State Forest Suspense Account to the Forest Management Investment Account (FMIA) of \$7,601,370 (FY 2018, \$7,703,662) for management, improvement, and road expenditures; and (ii) to the General Fund (GF) of \$1,497,892 (FY 2018 \$1,555,290) for administrative costs. For the combined school and university trust funds, net forestry income was \$5,308,685 (FY 2018, \$4,272,420), a 36.8 percent forestry operating margin (FY 2018, 31.6 percent).¹

In order to differentiate between net income from forestry and net to the Permanent School Fund and the University Trust, non-forestry revenues to and non-forestry expenditures from the State Forest Suspense Account must be accounted for. In FY 2019, non-qualifying State Forest Suspense Account revenue was \$327,865. Non-forestry direct appropriations transferred out of the forest suspense account totaled \$501,530. The transfers include appropriations to the Division of Lands and Minerals and the Department of Administration Trust Director. GF non-forestry reimbursements to cover costs for the Trust Director and the Legislative Permanent School Fund Commission totaled \$192,221. These non-forestry related revenues, direct appropriation transfers and reimbursements are removed to determine forestry net to the trusts and forestry operating margin. In FY 2019, \$4,942,799 (FY 2018, \$3,832,176) was transferred to the combined school and university trust funds with \$4,389,507 to the Permanent School Fund and \$553,292 to the University Trust.

¹ Operating margin is a measure of profitability. It indicates how much of each dollar of revenue is left over after operating and administrative costs are subtracted. The formula for calculating operating margin is: net income from operations divided by gross revenue expressed as a percentage.

Gross-Net Trends

FY 2019 qualifying forestry revenue from combined school and university trust lands was \$14.408 million, a 6.5 percent increase year-over-year. Forestry operating income from combined school and university trust lands was \$5.309 million, a 24.3 percent increase year-over-year. FY 2019 qualifying forestry revenue from school trust land (STL) was \$13.785 million. FY 2019 STL forestry operating income was \$4.755 million, an increase of \$0.386 million or 2.9 percent compared to FY 2018 (Figure 1).

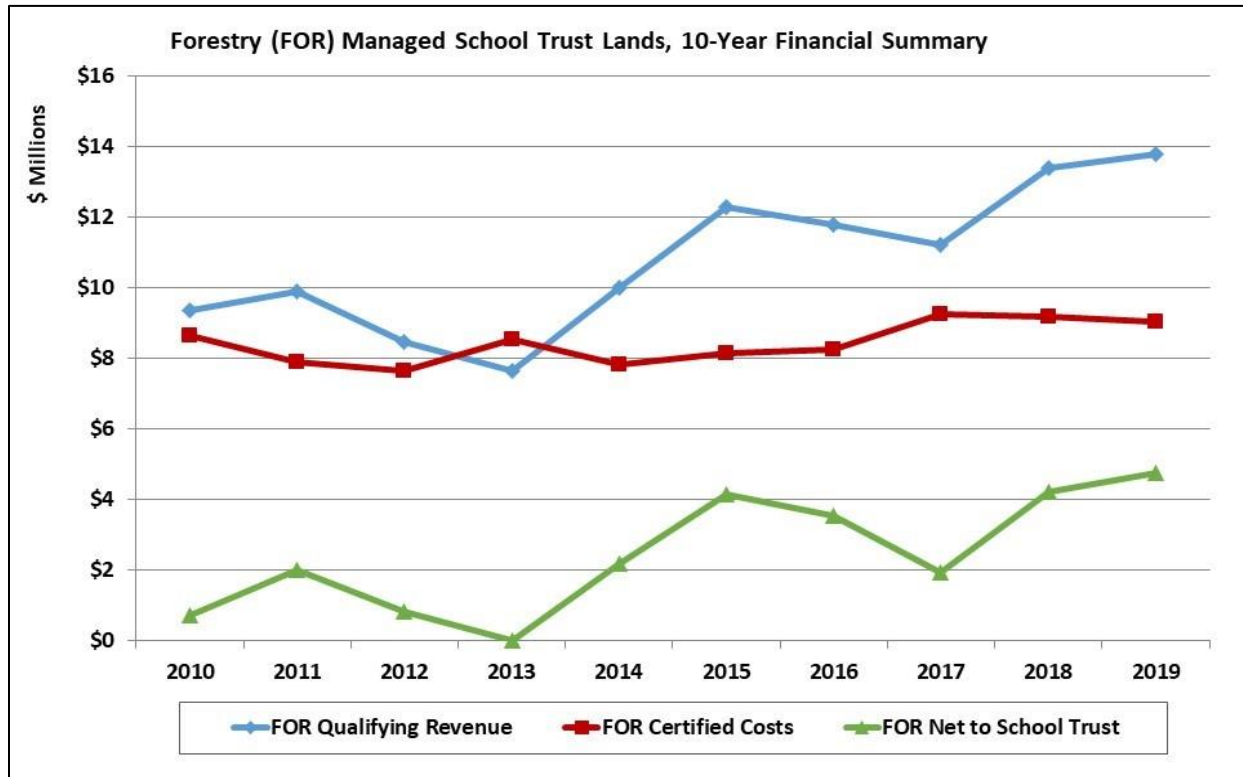


Figure 1: 10-Year Financial Summary for DNR Managed School Trust Lands.

I. QUALIFYING REVENUES AND EXPENDITURES

This cost certification report provides details on forestry revenue and forest management costs for school and university trust lands in fiscal year FY 2019. Effective July 1, 2013, two key changes were made to Minn. Stat. 16A.125 which specifies the details of cost certification: (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."

Qualifying Revenues

Qualifying forestry revenues include timber sales and certain land use receipts generated from both school and university trust lands that require work funded by the GF and FMIA forest management appropriations. In FY 2019, Minn. Stat. 16A.125 qualifying forestry revenues of \$14.408 million were realized, a year-over-year increase of \$0.877 million or 6.5 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. The Division of Forestry budgets, programs and tracks expenditures using a set of unique cost codes applied by fund and appropriation. These cost codes identify qualifying and non-qualifying expenditures by activity (e.g. timber sale preparation and design, timber scaling, forest inventory, and forest roads) that generate the expenditure. Work activities required to generate SLFM revenue qualify for cost certification under Minn. Stat. 16A.125. The qualifying SLFM activities are grouped into four statutory cost categories: management, improvement, roads, and administration.

General operations expenditures (e.g. facilities, information technology, time off, and training) are grouped into a separate shared direct cost category to be prorated across statutory cost categories. First, 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 expenditure 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 outreach, private land forest management assistance, urban forestry, and the United States Forest Service Good Neighbor Agreements (USFS GNA) are excluded from the cost certification process.

For FY 2019, forestry GF and FMIA forest management expenditures totaled \$34.898 million. Of the total, Minn. Stat. 16A.125 net qualifying SLFM expenditures totaled \$22.845 million for all acres' subject to cost certification. Based on the percentage trust acres to total acres, qualifying forestry expenditures for trust lands were \$9.099 million, a year-over-year decrease of \$0.160 million or 1.7 percent.

Management (\$5,981,077) —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: 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 2019 trust allocation was 45.2 percent of total \$13,238,612 qualifying SLFM expenditures (Exhibit 1, p15).

Forest Improvement (\$1,351,215) —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 2019 trust allocation was 45.2 percent of total \$2,990,800 qualifying improvement expenditures (Exhibit 1, p16).

Forest Roads (\$269,078) —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 2019 trust allocation was 9.4 percent of the total \$2,855,848 qualifying roads expenditures (Exhibit 1, p16).

Administration (\$1,497,892) —Department administrative services provided to the Division of Forestry and Division of Forestry administrative 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 prorated based on the ratio of trust land expenditures to net qualifying expenditures for: management, improvement, and roads including general operations allocations. The FY 2019 trust allocation was 39.8 percent of the total \$3,760,739 qualifying administration expenditures (Exhibit 1, p16).

II. OPERATING RESULTS

DNR timber sales comprise about 30 percent of the state's stumpage market. Excluding USFS GNA agreements, FY 2019 new volume offered was 905,162 cords. Volume sold declined to 763,339 cords from 827,372 cords in FY 2018. The new offer sell rate declined to 79.9 percent from 85.4 percent in FY 2018. FY 2019 harvest volume was 843,368 cords, an increase of 79,780 cords year-over-year. FY 2019 yearend sold-not harvested inventory decreased to 1.858 million cords from FY 2018 yearend 2.023 million cords, still above the 2-years supply threshold. During the year, all primary end-product markets were over supplied and under price pressure. Domestic demand for printing-writing papers, two-thirds of instate wood fiber demand, continued to decline. Lumber and oriented strand board prices remained depressed.

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 2019, \$14,112,641 School Trust revenue was deposited in the State Forest Suspense Account. In FY 2019, non-forestry direct appropriations were transferred out of the Forest Suspense Account to the Department of Administration-School Trust Director (\$299,787, 2.1 percent) and DNR Lands and Minerals Division (\$201,743, 1.4 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 (\$7,542,994, 53.5 percent). Certified forestry administrative costs were transferred to the GF (\$1,486,389, 10.5 percent). Certain operating expenses incurred by the Department of Administration-Trust Director and the LPSFC were reimbursed to the GF from the Forest Suspense Account (\$192,221, 1.4 percent). The net balance was transferred to the Permanent School Fund Investment Account (\$4,389,507, 31.1 percent).

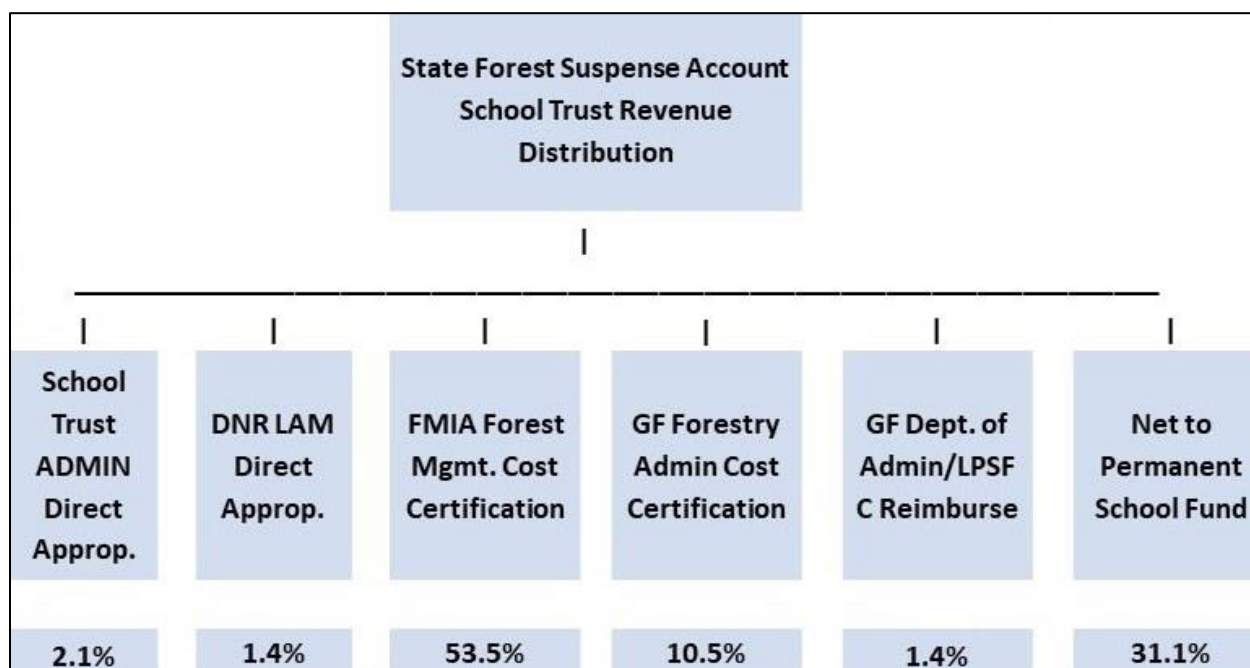


Figure 2: State Forest Suspense Account School Trust Revenue Distribution (Minn. Stat. 16A.125 qualifying and non-qualifying).

IV. FORESTRY TRUST COST CERTIFICATION HISTORY

Excluding USFS GNA agreements, FY 2019 forestry revenue from all state managed acres was \$25.198 million, five year average \$23.341 million. Qualifying combined school and university trusts revenue was \$14.408 million, five year average \$12.742 million. The sum of forestry trust cost certification transfers was \$9.099 million, five year average \$8.843 million. Forestry net to the trust funds was \$5.309 million, five year average \$3.9 million (Table 2a). After accounting for non-qualifying trust revenues, non-forestry direct appropriations, and non-forestry GF

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reimbursements, net to the trust funds was \$4.943 million, five year average \$3.553 million. For FY 2019, certified forestry costs were as follows: forest management \$5.981 million, forest improvement, \$1.351 million, forest roads \$0.269 million and administration \$1.498 million (Table 2b). Five-year average certified forestry costs were as follows: forest management \$5.923 million, forest improvement, \$1.319 million, forest roads \$0.172 million and administration \$1.429 million

Table 2a: Forest Suspense Account History for School and University Trusts.
(amounts in thousands)

Item	FY15	FY16	FY17	FY18	FY19	5-Yr. Avg.
Total Forestry Revenue (a)	\$23,713	\$23,062	\$21,567	\$23,163	\$25,198	\$23,341
Forestry Trust Revenue	\$12,447	\$11,869	\$11,456	\$13,531	\$14,408	\$12,742
Cost Transfer to GF	(\$1,370)	(\$1,267)	(\$1,455)	(\$1,555)	(\$1,498)	(\$1,429)
Cost Transfer to FMIA	(\$6,853)	(\$7,033)	(\$7,878)	(\$7,704)	(\$7,601)	(\$7,414)
Sum Cert. Cost Transfers	(\$8,222)	(\$8,300)	(\$9,332)	(\$9,259)	(\$9,099)	(\$8,843)
Forestry Net to Trust	\$4,224	\$3,569	\$2,124	\$4,272	\$5,309	\$3,900
Non-Forestry Revenues	\$205	\$317	\$388	\$736	\$328	\$395
Non-Forestry Direct Appropriations						
DNR LAM	(\$200)	(\$200)	(\$200)	(\$206)	(\$202)	(\$202)
ADMIN		(\$300)	(\$550)	(\$778)	(\$300)	(\$482)
Non-Forestry Reimbursements						
ADMIN General Fund		(\$178)	(\$192)	(\$185)	(\$184)	(\$185)
LPSFC General Fund	(\$4)	(\$10)	(\$5)	(\$8)	(\$8)	(\$7)
Net to Trust	\$4,226	\$3,197	\$1,565	\$3,832	\$4,943	\$3,553

Table 2b: Forestry Certified Costs History for School and University Trusts.
(amounts in thousands)

Forestry Cost Item	FY15	FY16	FY17	FY18	FY19	5-Yr Avg.
Forest Management	\$5,898	\$6,021	\$6,040	\$5,674	\$5,981	\$5,923
Forest Improvement	\$845	\$874	\$1,617	\$1,906	\$1,351	\$1,319
Forest Roads	\$109	\$138	\$221	\$124	\$269	\$172
Administration	\$1,370	\$1,267	\$1,455	\$1,555	\$1,498	\$1,429
Total	\$8,222	\$8,300	\$9,332	\$9,259	\$9,099	\$8,843

a) Excluding USFS GNA agreements.

b) LPSFC = Legislative Permanent School Fund Commission.

V. DNR FORESTRY TIMBER PROGRAM

Excluding USFS GNA agreements, DNR Forestry sold 763,339 cord equivalents and harvested (scaled) 843,368 cord equivalents all species, products, and units of measure in FY 2019. School trust land (STL) accounted for 404,434 cords sold, 53.0 percent of volume sold, and 458,002 cords harvested (scaled), 54.3 percent of cords harvested (scaled) (Figure 3). In FY 2019, STL volume harvested (scaled) rebounded, primarily as an outcome of expiring permit volume and favorable winter logging weather.

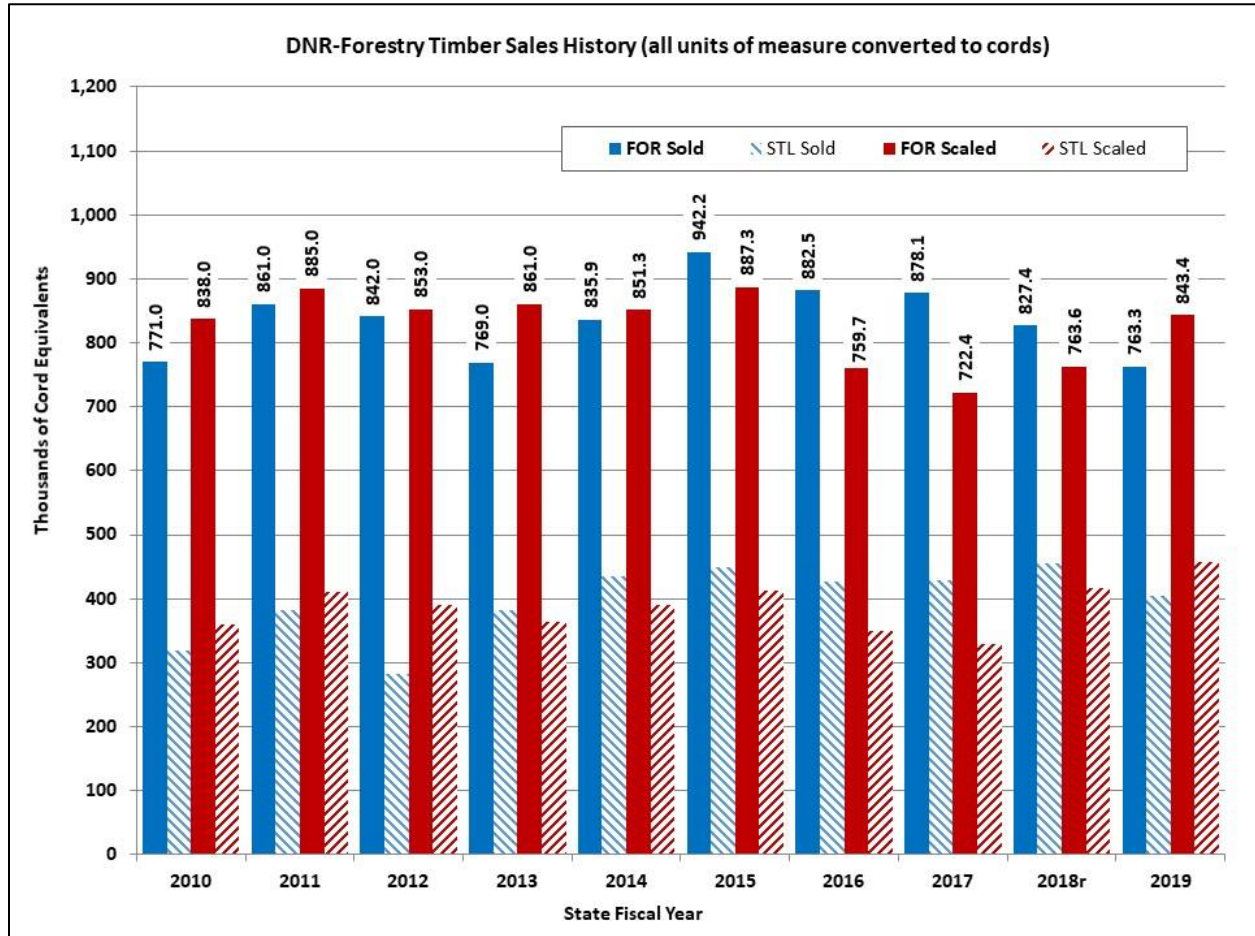


Figure 3: DNR Forestry 10-Year Timber Sales History, Volumes Sold and Harvested.

Non-salvage DNR timber permits are valid for three years from the sale date and can be harvested at any point during the 3-year permit period. Hence, average sold and scaled prices are not the same in a given fiscal year. In FY 2019, the average price received for timber sold decreased to \$25.40 per cord compared to \$27.53 in FY 2018, a decrease of \$2.13 per cord or 7.7 percent year-over-year. In FY 2019, the average price received for timber harvested (scaled) decreased to \$27.28 per cord as compared to \$27.80 in FY 2018, a decrease of \$0.52 per cord or 1.9 percent year-over-year (Figure 4).

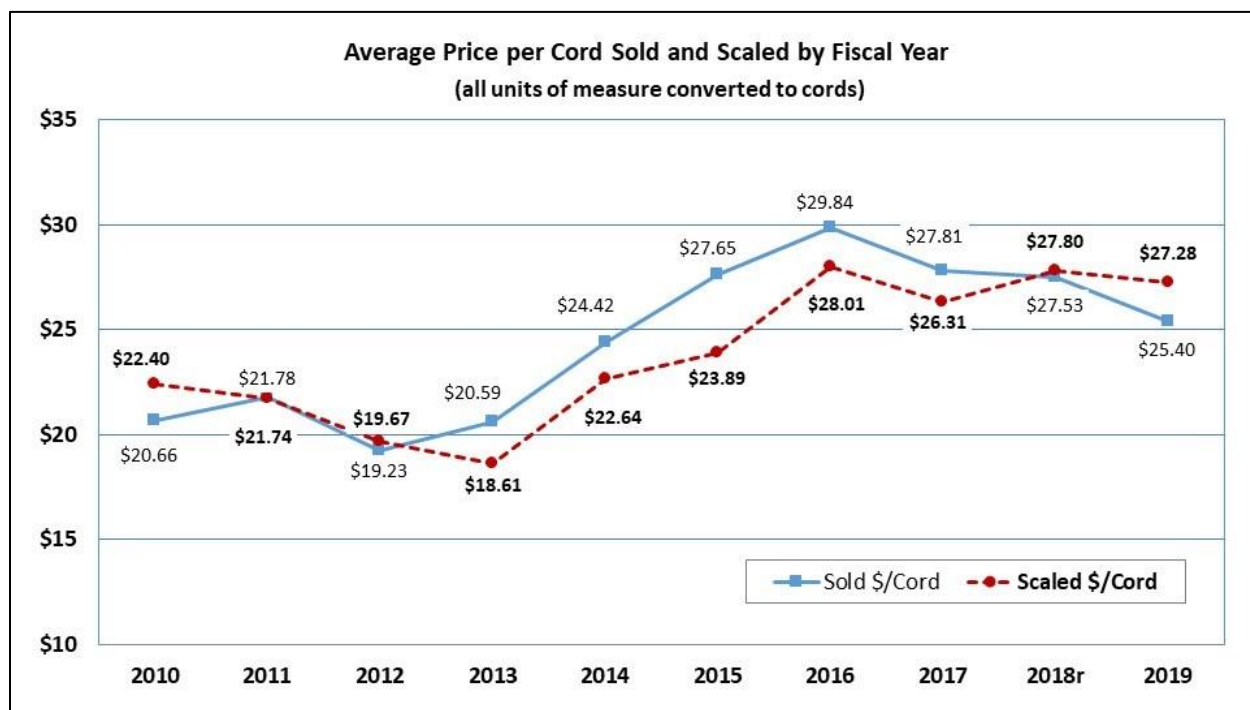


Figure 4: DNR Forestry 10-Year History Average Prices Received for Timber Sold and Scaled.

Due to the sale of about 200,000 cords of wind damaged salvage timber sales in FY 2012 followed by another 100,000 cords in FY 2013, the average price per cord of timber harvested (scaled) decreased to a low of \$18.61 per cord. In FY 2014-16, local market scarcity, driven by tight aspen supply, drove prices increases. In FY 2017-18, the increased 900,000-cord timber target in combination with below average harvest volumes added to the growing backlog of sold-not harvested inventory, pulling sell prices down from the FY2016 peak. In FY 2019, virtually all end-product markets declined for various reasons. Depressed product markets combined with a still high sold-not cut inventory drove further sell price declines.

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 2014 Office of the Legislative Auditor (OLA) Evaluation Report on DNR Forest Management.² 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 with the Saint Louis County (SLC) 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. Fiscal years and cost accounting formats are not uniform among land management organizations; available accounting numbers require a range of adjustments to be somewhat comparable.
6. All financials are self reported and unaudited except Potlatch Corporation.

The analysis of financial performance includes: profit potential, profitability, management efficiency, and land productivity. Of the land managing entities analyzed, operating margins ranged from -6.4 percent (Chippewa National Forest, CNF) to 73.2 percent (PotlatchDeltic Corp., PCH) with DNR managed STL reporting an operating margin of 34.5 percent (Table 3). Profit potential (gross revenue per cord sold) ranged from \$21.44 (Saint Louis County, SLC) per cord to \$101.51 per cord (Potlatch Corp., PCH). In terms of management efficiency, cost per cord ranged from \$14.24 per cord (Cass County, CAS) to \$43.16 per cord (CNF) with DNR managed STL reporting \$20.94 per cord. In terms of land productivity, cords harvested per managed acre ranged from 0.21 (CNF) to 1.15 (PCH) with DNR managed STL reporting an average 0.34 cords harvested per managed acre.

² 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.

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Table 3: Minn. Stat. 16A.125, Subd. 5.c - Financial Performance Comparisons. (a)
(amounts in thousands except where noted)

	MNDNR School Trust FY2019	CAS County CY2018	SLC County CY2018	CNF Federal FY2019	PCH REIT CY2018
REVENUES					
Timber Sales (Stumpage)	\$12,601.8	\$1,908.2	\$3,973.0	\$3,709.1	\$208,382.0
Land Use	\$1,183.0	\$100.4	\$681.0	\$184.1	
Total Revenue	\$13,784.8	\$2,008.6	\$4,654.0	\$3,893.2	\$208,382.0
EXPENSES					
Total Forest Mgmt. Expenditure	\$9,029.4	\$1,084.4	\$4,420.3	\$4,142.4	\$55,926.0
INCOME FROM OPERATIONS					
Profit/(Loss) from Operations	\$4,755.4	\$924.2	\$233.7	(\$249.2)	\$152,456.0
PROFIT POTENTIAL					
Gross Timber Rev per Cord Sold (b)	\$31.16	\$25.04	\$21.44	\$38.07	\$101.51
Gross Revenue per Mgmt. Acre	\$10.21	\$11.15	\$7.40	\$8.48	\$116.41
PROFITABILITY					
Operating Margin	34.5%	46.0%	5.0%	-6.4%	73.2%
Operating P/(L) per Cord Harvested (c)	\$10.38	\$12.16	\$1.87	(\$2.64)	\$74.26
MGMT EFFICIENCY					
Avg. Cost per cord (d)	\$20.94	\$14.24	\$28.48	\$43.16	\$27.24
LAND PRODUCTIVITY					
Cords Harvested per Mgmt. Acre	0.34	0.42	0.23	0.21	1.15
STATISTICAL DATA					
Fiscal Year End	June 30	Dec 31	Dec 31	Sept 30	Dec 31
Cords Sold	404.4	76.2	185.3	97.4	2,052.9
Cords Harvested	458.0	76.0	125.1	94.5	2,052.9
Average of Cords Sold & Harvested	431.2	76.1	155.2	96.0	2,052.9
Timber Mgmt. Acres (e)	1,349.5	180.2	629.0	459.3	1,790.0
Total Admin Acres	2,520.3	257.4	890.8	666.5	1,881.0

Notes for financial performance comparisons:

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 multiple financial data requests; PotlatchDeltic Timber REIT (PCH)-Resource Management Segment AL, AR, ID, MN, MS, data source = 10K Annual Report. PCH Minnesota ownership = 125,000 acres or 6.6% of total ownership acres.

b) Timber sales revenue divided by cords sold.

c) Profit/(Loss) from operations divided by cords harvested.

d) Total forest management expenditure divided by average of cords sold and harvested.

e) School trust timber management 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 five years, DNR managed STL operating margins have ranged from a low 17.3 percent in FY 2017 to a high 34.5 percent in FY 2019 (Figure 5).

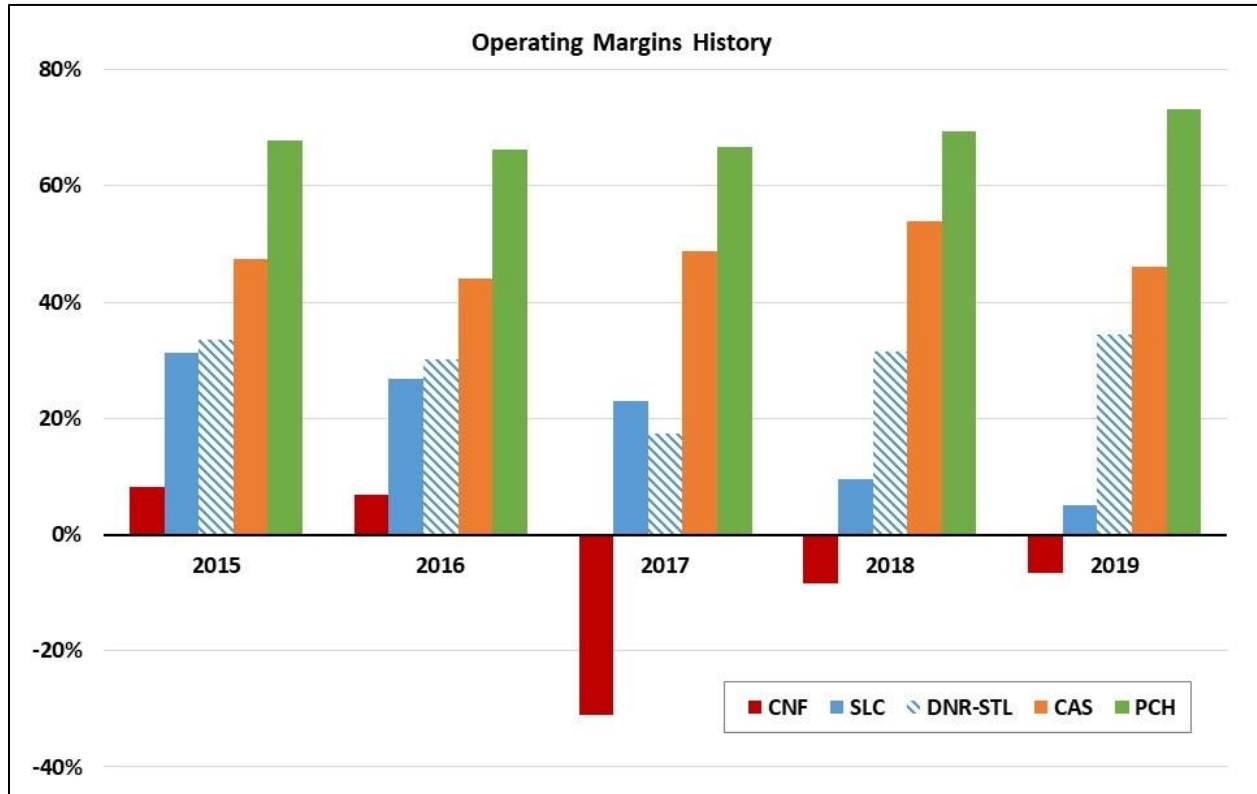


Figure 5: Minn. Stat. 16A.125 Subd. 5(c), Operating Margins History.

Exhibit 1: FY 2019 Minn. Statute 16A.125 Cost Allocation

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

A. Base Data Item	Value
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 State Land Admin Acres	5,287,326
Total Trust Acres Percent of Total State Admin Acres	45.179%
Permanent School Fund Acres Percent of Total State Admin Acres	44.832%
University Trust Percent of Total Admin Acres	0.347%
Permanent School Fund Acres Percent of Total Trust Acres Subject to Certification	99.232%
University Trust Acres Percent of Total Trust Acres Subject to Certification	0.768%
Total Trust Acres as a Percent of Total Admin Acres Served by State Forest Roads	9.424%
Net Allowable Forestry Expenditures Paid From the General Fund and FMIA	\$22,845,398.45
Sum of Allowable Forestry General Operations (support) Costs	\$6,310,555.86

Part B. Forest Management Costs for Trust Lands.

B.1. Management Cost Item	Value
Net Qualifying Forestry General Fund/FMIA Direct Costs for Management	\$2,294,710.48
Management Portion of Forestry General Operating GF/FMIA Costs	\$939,417.27
Total Management Costs to be Allocated	\$3,234,127.75
School Trust Management Cost Allocation at 44.832%	\$1,449,926.60
University Trust Management Cost at 0.347%	\$11,221.19

B.2. Timber Sales Cost Item	Value
Net Qualifying Forestry General Fund/FMIA Direct Costs for Timber Sales	\$7,098,480.96
Timber Sales Portion of Forestry General Operating GF/FMIA Costs	\$2,906,003.01
Total Timber Sales Costs	\$10,004,483.98
School Trust Timber Sales Cost Allocation at 44.832%	\$4,485,217.84
University Trust Timber Sales Cost Allocation at 0.347%	\$34,711.73

B.3. Total General Fund/FMIA Management Costs for Trust Lands:	Value
Sum of Mgmt. Costs for School Trust Lands	\$5,935,144.44
Sum of Mgmt. Costs for University Trust Lands	\$45,932.92

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Part C. Forest Improvement Costs for Trust Lands.

C. Improvement Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA Forest Improvement Costs	\$2,122,061.83
Forest Improvement Portion of Forestry General Operating GF/FMIA Costs	\$868,737.71
Total Forest Improvement Costs	\$2,990,799.54
School Trust Forest Improvement Cost Allocation at 44.832%	\$1,340,837.52
University Trust Forest Improvement Cost at 0.347%	\$10,376.93

Part D. Forest Roads Costs for Trust Lands.

D. Roads Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA State Forest Road Costs	\$2,025,884.18
State Forest Roads Portion of Forestry General Operating GF/FMIA Costs	\$829,364.14
Sum Qualifying State Forest Road Costs	\$2,855,248.32
State Forest Roads Cost Allocation to Trust Lands at 9.424%	\$269,078.60
School Trust Forest Roads Cost Allocation	\$267,012.16
University Trust Forest Roads Cost Allocation	\$2,066.44

Part E. Administrative Costs for Trust Lands.

E. Administrative Cost Item	Value
Sum of Allowable Forestry General Fund/FMIA Administrative Costs	\$2,993,705.13
Administrative Portion of Forestry General Operating GF/FMIA Costs	\$767,033.74
Total Net Admin Costs	\$3,760,738.87
Total Direct Trust Land Costs (includes General Ops allocations)	\$7,601,370.42
Total Qualifying General Fund/FMIA Costs Less Admin	\$19,084,659.58
Trust Direct Costs as a Percent of Total Qualifying GF/FMIA Direct Costs	39.830%
Trust Portion of Administrative Costs	\$1,497,892.54
School Trust Administrative Cost Allocation	\$1,486,389.16
University Trust Administrative Cost Allocation	\$11,503.38