
School Trust Land

INTRODUCTION

**Minnesota has
2.5 million
acres of school
trust land.**

When Minnesota became a state in 1858, the federal government granted it sections 16 and 36 of every township, or their equivalent, for the benefit of schools.¹ The Minnesota Constitution established the Permanent School Fund (PSF) to ensure a long-term source of funds for public education in the state. The PSF consists of the accumulated revenues generated from the land. The state holds the land and accumulated revenues in trust for the benefit of public schools in Minnesota.

The Department of Natural Resources (DNR) is responsible for managing the school trust land, much of which had been sold by the mid-1880s. DNR currently manages about 2.5 million acres of school trust land and retains an additional 1 million acres of “severed” mineral rights. Severed mineral rights occur when the state sells the land but retains the subsurface rights.² School trust land represents 46 percent of the 5.4 million acres of state-owned, DNR-administered land in Minnesota.

The principal of the Permanent School Fund consists of cash and investments generated from the trust land.³ Income is primarily earned from land and timber sales, land leases, and mineral royalties. The State Board of Investment (SBI) is responsible for investing the PSF principal, which had a market value of about \$437 million as of June 30, 1997. The Minnesota Constitution requires that the principal of the fund remain perpetual and inviolate forever. Interest and dividend earnings are distributed to school districts each year.

In May 1997, the Legislative Audit Commission directed our office to study the state’s management of school trust land and the Permanent School Fund. We addressed the following questions:

- **How has DNR managed the school trust land given its fiduciary responsibilities related to the Minnesota Constitution and state laws?**

¹ The original federal grant consisted of 2.9 million acres of land. The state later added swampland and other land grants to the original grant for a total of 8.1 million acres.

² Since 1901, state law has required that the mineral rights to state-owned land be retained when the surface rights to the land are sold.

³ The principal does not include the value of the trust land.

- **How does DNR balance its fiduciary responsibilities to the Permanent School Fund with its natural resource management and conservation responsibilities?**
- **What returns have timber sales, mining rents and royalties, lakeshore and other leases, and land sales realized for the principal of the PSF?**
- **Do DNR administrative costs reflect the actual costs of managing school trust land?**
- **How does Minnesota's oversight of school trust land management compare with other states? Could another unit of government manage Minnesota's school trust land more cost-effectively than DNR?**
- **How has the State Board of Investment invested the PSF principal? What rates of return have been earned?**

The Permanent School Fund has a market value of \$437 million.

To answer these questions we reviewed national literature and previous reports about Minnesota's school trust land, along with the Minnesota Constitution, state statutes, and case law relating to the management of school trust land. We discussed trust land, timber, mining, and other management policies and practices with DNR program staff responsible for administering these policies and practices. We used several different databases maintained by DNR to: (1) determine the nature and estimate the value of timber on trust land; (2) analyze timber sales on trust land; and (3) examine the number of leases and contracts and the frequency of land sales and exchanges. We also talked with staff from county land management departments in northern Minnesota, and conducted telephone interviews with trust land and investment fund managers from a sample of other states. We interviewed members of the Permanent School Fund Advisory Committee. Finally, we evaluated the SBI's past and future investment strategies and past performance related to the PSF principal.

We did not examine DNR's management of the 26,000 acres of University trust land given by the federal government to Minnesota to support a public university. This evaluation also does not examine DNR's forestry and minerals resource management policies and practices in detail.

This report has five chapters. Chapter 1 provides background information on the origin and nature of the federal school land grant, including a summary of Minnesota's current management structure for school trust land and the PSF principal. Chapter 2 contains detailed information on Minnesota's land management policies and presents our analysis of how DNR manages school trust land. Chapter 3 examines lakeshore and other leases on trust land and trust land sales and exchanges. Chapter 4 discusses oversight of school trust land management and options for financing the costs of land management. Chapter 5 examines the State Board of Investment's strategies for investing the PSF principal and rates of return.