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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Evaluation Report Summary / March 2010

Natural Resource Land

Major Findings:

- While its long-range plans propose significant future acquisitions of land, the Department of Natural Resources (DNR) appears to lack adequate resources to manage and maintain its current land holdings.

- However, except for state parks and trails, DNR has not prepared a long-range budget analysis that compares its ongoing land management needs to its current or projected funding levels.

- DNR has been working to manage its land assets, although progress has been limited sometimes due to factors beyond the agency's control.

- More work is needed to address the inefficient checkerboard pattern of state forest land ownership in northern Minnesota.

- DNR lacks a comprehensive management program to protect the state's investment in conservation easements, but is developing one.

- An unclear statutory purpose and a lack of data make it difficult to determine the adequacy of payments in lieu of taxes (PILT) made to local governments with state natural resource land within their boundaries.

- Nevertheless, we determined that PILT is generally more than adequate in replacing the property taxes lost by counties when DNR acquires nonhunting land.

Recommendations:

- As has been required for state parks and trails, the Legislature should require DNR to prepare a long-range budget analysis that compares annual budget needs for other DNR-managed lands with estimated funding. The analysis should also examine the impact of additional acquisitions.

- The Legislature should review the analysis and, in particular, DNR's assumptions about the land management and other activities that are necessary for the operation of DNR land and facilities.

- DNR should continue to evaluate its current land holdings and conduct additional land evaluation projects with counties.

- DNR should implement a comprehensive conservation easement management plan that recognizes the need for baseline reports and periodic monitoring.

- The Legislature should review the appropriateness of the current distribution of PILT among various types of local governments.

The Department of Natural Resources (DNR) appears to lack adequate resources to manage and maintain its current land holdings.

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The Legislature needs more information from DNR comparing the costs of managing existing lands with current or projected funding levels.

Report Summary

About one-fourth of the land in Minnesota is owned by government agencies, and the vast majority of publicly owned land is natural resource land owned by the state or federal government. State land includes 5.6 million acres managed by DNR, or about 11 percent of the land in Minnesota. Among the lands managed by DNR are forests, wildlife management areas, parks, trails, aquatic management areas, scientific and natural areas, and water access sites. The state also owns 2.8 million acres of tax-forfeited land in trust for local governments. This land, which is primarily forest land, is managed by counties and accounts for about 6 percent of the land in Minnesota.

In addition to owning land, the state has purchased conservation easements on private land that limit development or land uses. DNR has over 1,100 conservation easements, including easements on trout streams, forests, native prairies, wetlands, and scenic vistas. The Board of Water and Soil Resources (BWSR) has purchased more than 5,100 easements on wetlands and farmland.

DNR's long-range plans propose significant growth in state-owned land, but DNR appears to lack adequate resources to manage and maintain its current land holdings.

A number of plans prepared by DNR or advisory groups recommend significant acquisitions of land and conservation easements. For example, an increase of 64 percent is recommended for wildlife management areas, while an increase of over 300 percent is recommended for aquatic management areas. The goals for most areas are high, except for state forests and other forest land where an increase of 3 to 6 percent is proposed.

Despite these ambitious proposals, DNR does not appear to have adequate resources to manage and maintain its current land holdings. For example, there are deferred capital maintenance needs of over $125 million for state parks, trails, and other recreational facilities; an $8 million backlog of road and bridge needs for state forests; and an $8.7 million backlog of activities needed to bring existing scientific and natural areas and native prairie bank properties into appropriate condition.

Except for parks and trails, DNR has not prepared a long-range budget analysis that compares its ongoing land management needs with current or projected funding levels.

The 2009 Legislature required DNR to prepare a 25-year budget analysis that compares park and trail needs with funding. The analysis highlighted the systems' deferred rehabilitation needs as well as a projected $6 million per year shortfall in funding for operations and maintenance.

Analysis for other land holdings is needed for policymakers to understand the extent to which DNR lacks the resources to manage and maintain existing DNR land. For wildlife management areas, an even more basic analysis is needed since DNR lacks internal systemwide guidelines on the proper frequency for activities such as controlled burns, tree and woody biomass removal, and brushland management. This information would help the Legislature determine the extent to which the state should acquire additional natural resource land.

DNR has made efforts in recent years to manage its land assets, but more work is needed.

DNR has made efforts in recent years to reevaluate its land holdings, sell surplus or lower quality land, and exchange land with counties. The agency's progress has been limited, although sometimes by factors beyond its control.

Although DNR has made significant efforts in recent years, more work is needed to strategically adjust its land holdings and develop a comprehensive easement management program.

But more work is needed because there is still an inefficient checkerboard pattern of state forest land ownership, particularly in northern Minnesota where both the state and counties manage public natural resource land. In addition, we think that more projects, like DNR's pilot project with Roseau County, are needed, particularly in those northern counties with significant percentages of state land. Among the actions that should be considered are the sale of surplus land, exchanges of land with counties, and the acquisition of land or easements to address access issues.

Action is also needed to address the longstanding concerns about school trust fund land in the Boundary Waters Canoe Area that does not earn much income. But addressing that problem will require cooperation from state and federal policymakers.

DNR lacks a comprehensive management program to protect the state's investment in conservation easements, but is developing one.

It is important for agencies responsible for managing conservation easements to document baseline property conditions when an easement is acquired and to periodically monitor the property for compliance with the easement. Without such information, a private property owner could alter the conditions on the property and defeat the purpose of the easement.

BWSR already has policies or rules in place that address the need for baseline reports and periodic monitoring. But DNR lacks an agency-wide program for managing its conservation easements.

Some DNR divisions have incorporated monitoring into their programs. However, there has been a lack of consistency across the agency. A 2002 internal department workgroup found significant gaps in the agency's knowledge about the types of easements held by the agency and responsibilities for managing them. Due to a legislative grant and mandate, DNR is compiling an inventory of its conservation easements and developing management plans for the various types of conservation easements under its control.

The state's payments in lieu of taxes (PILT) have generally been a reliable and growing source of revenues for local governments with state land within their boundaries.

In recognition of the potential fiscal impacts of state-owned land, the state makes payments in lieu of taxes to counties, townships, and sometimes school districts. Since 1980, the state has made these payments for all DNR natural resource land, as well as county-administered tax-forfeited land. The payments have been made for each year starting in 1980, although some payments were delayed in the early 1980s. On a per-acre basis, the 2009 payments of $21.9 million represent an increase of more than 30 percent over the 1980 payments adjusted for inflation. However, payments have not kept pace with inflation in some counties with little acquired land.

An unclear statutory purpose and lack of data make it difficult to assess the adequacy of PILT provided by the state to local governments.

State law does not sufficiently define the purpose of PILT payments. As a result, it is difficult to use state law as a guide in assessing the adequacy of PILT.

Alternatively, we considered the various ways in which state land affects local government finances. For private land acquired by DNR, the main fiscal impact is reduced property tax revenue. Public ownership of land may also affect the costs of providing local government services, but these costs may either increase or decrease depending on the particular type of

While the overall adequacy of PILT is difficult to assess, PILT is more than adequate in replacing property taxes lost by counties when the state acquires non-hunting land.

land involved, its prior use, and its subsequent use by the public. Negative fiscal impacts may be offset to some extent by a number of factors including: (1) increased state aids to counties, cities, and school districts; (2) the economic impact of visitors to state parks and other land; (3) increased values of property adjacent to public land; and (4) revenues generated from certain state lands and distributed to local governments.

We were not able to quantify these factors, however, because data are not available to measure the impact that state land has on local government service costs or on adjacent property values. In addition, it would be difficult to measure the economic impact of visitors and their indirect effect on local government finances.

PILT is generally more than adequate in replacing the property taxes lost by counties when DNR acquires nonhunting land.

Although a comprehensive examination of the fiscal impacts of state land was not possible, we were able to measure the adequacy of PILT in replacing property tax revenue lost when private land is sold to DNR. For all acquired lands except hunting lands, counties receive most of the PILT. Townships receive no more than 10 percent of the PILT, and often much less than 10 percent, even though the median township share of combined county and township taxes is close to 20 percent.

Our estimates suggest that, in about 90 percent or more of the counties, the PILT paid in 2009 on acquired state land exceeded the combined county and township property taxes on similar private land, and sometimes by a significant percentage. These results suggest that the PILT counties receive for most acquired land is generally greater than the property taxes they receive on comparable private land. Townships do not receive a fair share of the PILT, but whether they are adequately compensated is unclear.

PILT for acquired hunting lands is distributed to counties, townships, and school districts. It is unclear whether school districts should receive PILT since their revenues are largely unaffected by state land acquisitions due to state funding formulas and education aids. In some cases, land acquisition may increase school district tax rates, but overall revenues would be unaffected.

Summary of Agency Response

In a letter dated March 1, 2010, Minnesota Department of Natural Resources Commissioner Mark Holsten said that: "The major findings in the Natural Resource Lands report support the efforts and direction of the department, and many of the recommendations direct DNR to continue its efforts toward land management goals." The commissioner agreed with most of the recommendations in the report, although he only partially agreed with the recommendation to conduct a long-range budget analysis and disagreed with the recommendation for more detailed management and cost information for proposed acquisitions.

The full evaluation report, *Natural Resource Land*,
is available at 651-296-4708 or:
www.auditor.leg.state.mn.us/ped/2010/nrland.htm