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Sale of trust lands would yield far more than an exchange

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For decades, state officials have argued over the relative merits of whether to sell or exchange the roughly 80,000 acres of state school trust lands located within the Boundary Waters Canoe Area Wilderness. A Timberjay investigation has found that a sale of the lands in question would almost certainly generate many times more revenue for the school trust than an exchange.

Under the Minnesota Constitution, school trust lands are supposed to be managed to generate revenue for the state's permanent school trust, designed as a perpetual source of funding to help pay for operating public schools. But that hasn't been possible on those lands located inside the wilderness since 1978, when the Boundary Waters Wilderness Act prohibited road building, logging, and mining within the 1.1-million-acre wilderness area, effectively cutting off the state's access to its school trust lands. Those lands were granted to the state of Minnesota by the federal government at the time of statehood and the state's constitution requires that the lands be managed to produce revenue for the state's school trust fund.

Local lawmakers have consistently argued that a land exchange, which would provide the state of Minnesota with about 80,000 additional acres of federal lands outside the wilderness for revenue generation, primarily from the selling of timber stumpage, is a better deal for the region and for schools, than is an outright sale. Many other officials have argued that a sale of the lands to the federal government would generate a large up-front pot of money for investment, which would continue to generate far more revenue for the trust fund annually than logging an additional 80,000 acres ever could.

Those arguments rely on various assumptions, but as the Timberjay found through a records request to the Department of Natural Resources, the revenue generated by a sale of the lands would far exceed that generated through an exchange and subsequent logging of any newly-acquired state lands.

Understanding the issue

Understanding that conclusion requires a bit of background. First, the Office of the School Trust Lands, or OSTL, oversees the roughly 2.5 million acres of land held under the trust, but much of the on-the-ground management of those lands falls to the Department of Natural Resources, and the DNR assesses its costs associated with that management from the revenues that the OSTL receives.

For example, if the DNR sets up a timber sale on school trust land, it can deduct the cost of administering the sale, managing the harvest and scaling and billing for stumpage. Any additional costs for things like construction or maintenance of access roads could also be deducted from the piece of the pie received by the school trust.

Second, most of the revenue generated from school trust lands today comes from royalties on mineral rights held by the trust, not timber, and the vast majority (about 96 percent) of that revenue comes from receipts on taconite reserves.

Over the past ten years, those revenues averaged \$27.83 million annually, or \$278.26 million over the decade. The DNR deducts just under nine percent of that revenue to cover its costs of management.

While some northeastern Minnesota politicians have touted the potential for additional mining receipts on lands it might obtain through an exchange, that’s wishful thinking. In fact, neither a previously proposed exchange nor a sale of school trust lands would generate any additional revenue from mineral rights, notes Aaron Vande Linde, director of the OSTL. “The state-federal land exchange did not include an exchange of mineral rights,” Vande Linde said. “The Minnesota Constitution and state law requires the state to retain minerals and water power rights when exchanging lands,” Vande Linde said, citing Article XI, section 10 of the Minnesota Constitution and Minn. Stat. 93.01.

Those restrictions mean that the state would retain its mineral rights within the Boundary Waters, where mining is prohibited, and would not obtain any additional rights outside of the wilderness. The bottom line? Whether sold or exchanged, the lands in question won't generate so much as a nickel of new revenue from mining.

Timber sales generate modest returns

When limited to revenue from timber sales, the returns on school trust lands are quite limited. The DNR currently manages approximately 1.5 million acres of school trust lands as commercial forest, while another million acres is considered non-forest land, or not commercially viable.

From those lands, the DNR generates about $12.5 million in gross receipts from timber sales, or about $8.35 an acre annually. Yet after deducting the DNR's expenses, the net receipts to the school trust are far lower, averaging just over $3 million per year over the past five years, or almost exactly two dollars per acre annually.

At a similar rate of return, an additional 80,000 acres would be expected to generate an additional $160,000 per year in revenue for the trust, or approximately $1.6 million over a decade, not including any investment proceeds on that money.

A sale would generate far more

In comparison to the revenue generated from an exchange and subsequent timber harvest, the revenue from a sale of the 80,000 acres of school trust lands would be vastly greater. "It comes down to the time value of money," said Vande Linde. "The trust will receive cash on the barrel and be able to invest it straight-away."

As with other school trust revenues, the funds from a purchase would be invested, and those investments have traditionally done quite well. Over the past ten years, through the Minnesota Board of Investment, the trust has achieved annual investment returns of approximately 7.5 percent, which is a rate of return that will double an investment every ten years.

The compounding nature of such a rate of return over time can yield staggering sums. Based on preliminary discussions and previous appraisals, the sale of the school trust lands would be expected to generate somewhere around $32-$34 million for the school trust. That initial $33 million purchase price, invested and left untouched, would be worth about $528 million in 40 years. Based on current net revenue from logging on the additional 80,000 acres, timber receipts plus investment returns if left untouched for those same 40 years, would be worth about $33 million.

$528 million versus $33 million. While these numbers are estimates, they help to highlight the yawning gap between the financial returns to the trust depending on the decisions officials make over the next year or two.

Proponents of an exchange versus a sale argue there are other considerations involved. “Maybe we will generate more by selling it now,” said state Rep. Roger Skraba, “but that shouldn’t be our only goal.”

Skraba argues that financial calculations that point to a far better yield from a sale assume that the state’s past investment success will continue. “That assumes the economy doesn’t go down,” he said.

Economic change is inevitable, of course, and can work in many ways. Technology could reduce demand for paper products, which could reduce demand for timber from state lands. A slowing economy, that might impact the state’s investment returns, could also slow the housing market and demand for wood products. Climate change could reduce the amount and type of forest that currently covers the state, impacting future timber receipts.

Skraba relies on a second argument as well. “Communities need work to survive,” he said. “We have a natural resource extraction economy. Now, if the surrounding communities know there are 50-60,000 more acres available, they have a better opportunity to plan logging for the future.”

Skraba’s argument suggests that federal lands generate less cordage on an annual basis than the same acres would under state ownership. While that is true, the difference is relatively minor. According to the DNR, federal lands encompass 1.9 million acres of commercial forest and those lands generated 283,200 cords of timber in 2018 (the most recent year cited on the DNR website), or 0.15 cords per acre. The DNR, which manages 3.7 million acres, generated 754,600 cords in the same year, or 0.20 cords per acre.

Assuming similar trends, an 80,000-acre land exchange could be expected to generate an additional 4,000 cords annually, which would have increased the total cordage sold in the state in 2018 from 2.814 million cords to 2.818 million cords, an increase of 0.14 percent.