

Minnesota Department of Natural Resources
Division of Forestry
M.S. 16A.125, Subd 5. Certification Report
Forest Suspense Account 2018

REVENUES	School Susp. Fund: 3800	Univ. Susp. Fund: 6000	School+Univ Susp. Total
[A] Revenues Forestry Qualifying	\$ 13,398,435	\$ 132,937	\$ 13,531,372
[B] Revenues Non-Qualifying	\$ 735,872	\$ -	\$ 735,872
[C] Total Revenues	\$ 14,134,307	\$ 132,937	\$ 14,267,244
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	\$ (206,000)	\$ -	\$ (206,000)
Dept. of Admin Trust Director CANCELED			
Legal Citation: 151 004 03 009 000	\$ 22,452	\$ -	\$ 22,452
Dept. of Admin Trust Director			
Legal Citation: 17 093 01 09A 000	\$ (300,000)	\$ -	\$ (300,000)
Dept. of Admin Trust Director			
Legal Citation: 17 093 01 09B 000	\$ (500,000)	\$ -	\$ (500,000)
[D] Total Non-Forestry Direct Appropriations	\$ (983,548)	\$ -	\$ (983,548)
Total Revenues Minus Direct Appropriations	\$ 13,150,759	\$ 132,937	\$ 13,283,696
Expenses - Forestry Qualifying			
[E] Management	\$ (5,630,218)	\$ (43,573)	\$ (5,673,791)
[F] Improvement	\$ (1,891,499)	\$ (14,639)	\$ (1,906,138)
[G] Forest Roads	\$ (122,783)	\$ (950)	\$ (123,733)
[H] Administration	\$ (1,543,346)	\$ (11,944)	\$ (1,555,290)
[J] Forestry Certified Costs	\$ (9,187,846)	\$ (71,106)	\$ (9,258,952)
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)	\$ (185,000)	\$ -	\$ (185,000)
Permanent School Fund Commission (PSFC)			
Legal Citations: 171 004 01 002 004 and Minn. Stats. 18, Ch. 16A.125, Subd. 5(d)(2)	\$ (7,568)	\$ -	\$ (7,568)
[K] Total Non-Forestry Reimbursements	\$ (192,568)	\$ -	\$ (192,568)
NET INCOME			
[L] Forestry Net to Trust Funds ⁽¹⁾	\$ 4,210,589	\$ 61,831	\$ 4,272,420
[M] Net to Permanent Trust Funds ⁽²⁾	\$ 3,770,345	\$ 61,831	\$ 3,832,176

Transfers to Other Funds Per M.S. 16A.125, Subd. 5(d)			
Transfer to the Forest Management Investment Account			
M.S. 16A.125, Subd. 5(d)(1) Transfer ⁽³⁾	\$ (7,644,500)	\$ (59,162)	\$ (7,703,662)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(2) Transfer ⁽⁴⁾	\$ (192,568)	\$ -	\$ (192,568)
Transfer to the State General Fund			
M.S. 16A.125, Subd. 5(d)(3) Transfer ⁽⁵⁾	\$ (1,543,346)	\$ (11,944)	\$ (1,555,290)
Total M.S. 16A.125 Transfers to Other Funds	\$ (9,380,414)	\$ (71,106)	\$ (9,451,520)

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 PSFC 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:

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Director
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Mary Robison
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Date: _____

Date: _____

Date: _____

2018

M.S. 16A.125 Transfer Certification Report

This report identifies forestry revenues attributable to trust lands and the forestry expenditures certified against trust lands. Department of Administration, Trust Director and other non-forestry expenditures drawn from the State Forest Suspense Account within the Permanent School Fund are included to fully document how Forest Suspense Account revenues from state managed trust lands are distributed.



Division of Forestry

December 11, 2018

M.S. 16A.125 Transfer Certification Report

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)	160 hours @ \$55/hour	8,800
Duplication	nominal	
Other	nominal	
TOTAL TO PREPARE REPORT		\$8,800

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 lake shore 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, Division of Forestry (DNR Forestry) 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) 2018, qualifying revenue from DNR Forestry managed trust lands totaled \$13.531 million, an increase of \$2.075 million or 18.1 percent compared to FY 2017 (Table 1). FY 2018 net qualifying forestry expenditures for DNR Forestry managed trust lands totaled \$9.259 million, a decrease of \$0.074 million or 0.8 percent compared to FY 2017. FY 2018 total volume scaled (harvested) from trust lands was 418,057 cord equivalents, an increase of 82,621 cord equivalents or 24.6 percent year-over-year. In FY 2018, the average value of wood scaled (harvested) was \$27.82 per cord, an increase of \$0.48 per cord or 1.8 percent year-over-year.

Table 1: FY 2018 Minn. Stat. 16A.125 Forest Suspense Account Forestry Financial Results (a)

FORESTRY REVENUES	FY2017	FY2018	YoY Change	Change%
Timber Sales	\$10,255,359	\$11,863,923	\$1,608,564	15.7%
TS Interest & Penalty	\$5,332	\$3,241	(\$2,091)	-39.2%
Res Mgmt. Access	\$5,000	\$2,486	(\$2,515)	-50.3%
Land Use	\$1,190,352	\$1,661,722	\$471,370	39.6%
Revenues Summary	\$11,456,043	\$13,531,372	\$2,075,329	18.1%
FORESTRY EXPENSES				
Management	\$6,040,147	\$5,673,791	(\$366,356)	-6.1%
Improvement	\$1,617,012	\$1,906,138	\$289,126	17.9%
Forest Roads	\$220,774	\$123,733	(\$97,041)	-44.0%
Administration	\$1,454,526	\$1,555,290	\$100,764	6.9%
Expenses Summary	\$9,332,459	\$9,258,952	(\$73,507)	-0.8%
Forestry Operating Income	\$2,123,584	\$4,272,420	\$2,148,836	101.2%
Forestry Operating Margin	18.5%	31.6%	na	13.0%
TIMBER VOLUMES & PRICES	FY2017	FY2018	YoY Change	Change%
Volume SOLD (cords)	433,843	461,781	27,938	6.4%
Average SOLD Price (per cord)	\$28.27	\$28.82	\$0.55	1.9%
Volume SCALED (cords)	335,436	418,057	82,621	24.6%
Average SCALED Price (per cord)	\$27.34	\$27.82	\$0.48	1.8%

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

M.S. 16A.125 Transfer Certification Report

Per Minn. Stat. 16A.125, Subd. 5(d), this report certifies DNR Forestry cost recovery and the transfer of funds from the State Forest Suspense Account to the Forest Management Investment Account (FMIA) of \$7,703,662 (FY 2017, \$7,877,933) for management, improvement, and road expenditures, and to the General Fund (GF) of \$1,555,290 (FY 2017 \$1,454,526) for DNR Forestry administration costs. For the combined school and university trust funds, net income from forest management was \$4,272,420 (FY 2017, \$2,123,584), a 31.6 percent forestry operating margin (FY 2017, 18.5 percent).

Accounting for FY 2018 non-qualifying State Forest Suspense Account revenue of \$735,872, non-forestry direct appropriations to DNR-Lands and Minerals (\$206,000), Department of Administration-Trust Director (\$777,548), and GF reimbursements (\$192,568) of Department of Administration-Trust Director and the Legislative Permanent School Fund Commission (LPSFC) expenditures, some \$3,832,176 (FY 2017, \$1,564,540) was transferred to the combined trust funds with \$3,770,345 to the Permanent School Fund and \$61,831 to the University Trust.

Gross-Net Trends

FY 2018 qualifying forestry revenue from combined trust lands was \$13.531 million, an 18.1 percent increase year-over-year. Forestry operating income from combined trust lands was \$4.272 million, a 101.2 percent increase year-over-year. FY 2018 qualifying forestry revenue from school trust land (STL) was \$13.398 million. FY 2018 STL forestry operating income was \$4.211 million, an increase of \$2.268 million or 116.8 percent compared to FY 2017 (Figure 1).

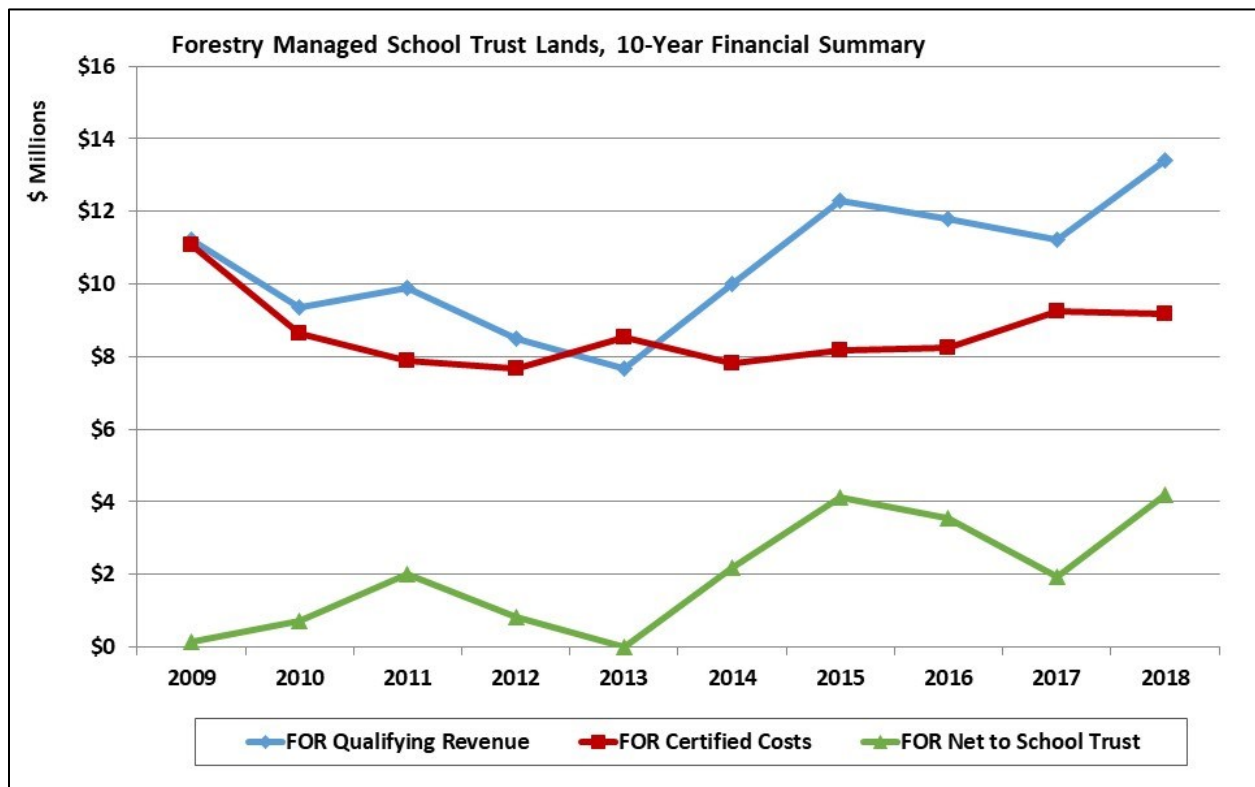


Figure 1: 10-Year Financial Summary for DNR Forestry Managed School Trust Lands.

I. QUALIFYING REVENUES AND EXPENDITURES

This cost certification report provides details on forestry revenue and forest management costs for trust fund land in fiscal year FY 2018. Effective July 1, 2013, two key changes were made to Minn. Stat. 16A.125: (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." The cost certification is organized by four statutory categories: Forest Management, Improvement, Forest Roads, and Administration.

Qualifying Revenues

Qualifying forestry revenues include timber sales and certain land use receipts generated from combined trust lands that are funded by DNR Forestry GF and FMIA forest management appropriations. FY 2018 receipts from forest management activities across all state administered lands (Acquired Forestry, Acquired Wildlife, Consolidated Conservation, School Trust, University Trust, etc.) totaled \$23.163 million, a year-over-year increase of \$1.596 million or 7.4 percent. Qualifying forestry revenues of \$13.531 million were realized from combined trust lands, a year-over-year increase of \$2.075 million or 18.1 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. DNR Forestry budgets division programs and tracks expenditures using a set of unique cost codes applied by fund and appropriation. The accounting strings identify qualifying and non-qualifying expenditures by activity (e.g. timber sale preparation and design, forest inventory, forest roads, private forest management, etc.) that generate the expenditure. Work activities required to generate SLFM revenue qualify for Minn. Stat. 16A.125. The qualifying SLFM activities are grouped into the four (4) statutory cost categories: management, improvement, roads, and administration. In addition, general operations expenditures (fleet, facilities, information technology, and time off) are grouped as a separate category to be prorated across direct cost categories. 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 private land forest management assistance, urban forestry, and the USFS Good Neighbor Agreements are excluded from the cost certification process.

For FY 2018, DNR Forestry GF and FMIA forest management expenditures totaled \$31.679 million. Of the total, Minn. Stat. 16A.125 net qualifying SLFM expenditures totaled \$21.743 million for all acres' subject to cost certification. Based on the percentage trust acres to total

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acres, qualifying forestry expenditures for trust lands were \$9.259 million, a year-over-year decrease of \$0.074 million or 0.8 percent.

Management (\$5,673,791)—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: policy development, 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 2018 trust allocation was 45.2 percent of total \$12,558,460 qualifying SLFM expenditures (Exhibit 1, p14).

Forest Improvement (\$1,906,138)—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 2018 trust allocation was 45.2 percent of total \$4,219,075 qualifying improvement expenditures (Exhibit 1, p15).

Forest Roads (\$123,733)—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 2018 trust allocation was 9.4 percent of the total \$1,312,963 qualifying roads expenditures (Exhibit 1, p15).

Administration (\$1,555,290)—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 2018 trust allocation was 42.6 percent of the total \$3,652,285 qualifying administration expenditures (Exhibit 1, p15).

II. OPERATING RESULTS

DNR Forestry timber sales comprise about 30 percent of the state's stumpage market. During FY 2018, new volume offered was 926,516 cords, slightly exceeding the increased timber target of 900,000 cords. Sales volume declined to 817,742 cords from 840,065 cords in FY 2017. The new offer sell rate declined to 85.4 percent from 88.9 percent in FY 2017. FY 2018 harvest volume was 765,525 cords, an increase of 43,112 cords year-over-year. Sold-not harvested inventory increased at yearend to 2.023 million cords from FY 2017 yearend 1.975 million cords. Primary end product markets were mixed. Printing-writing papers, two-thirds of instate wood fiber demand and pricing was relatively stable. Lumber and oriented strand board markets were highly volatile with dramatic price increases through fiscal year third and fourth quarters.

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 2018, \$14,134,307 School Trust revenue was deposited in the State Forest Suspense Account. In FY 2018, non-forestry direct appropriations were transferred out of the Forest Suspense Account to the Department of Administration-School Trust Director (\$777,548, 5.5 percent) and DNR Lands and Minerals Division (\$206,000, 1.5 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 (\$7,644,500, 54.1 percent). Certified forestry administrative costs were transferred to the GF (\$1,543,346, 10.9 percent). Certain expenses incurred by the Department of Administration-Trust Director and the LPSFC were reimbursed to the GF from the Forest Suspense Account (\$192,568, 1.3 percent). The net balance was transferred to the Permanent School Fund Investment Account (\$3,770,345, 26.7 percent).

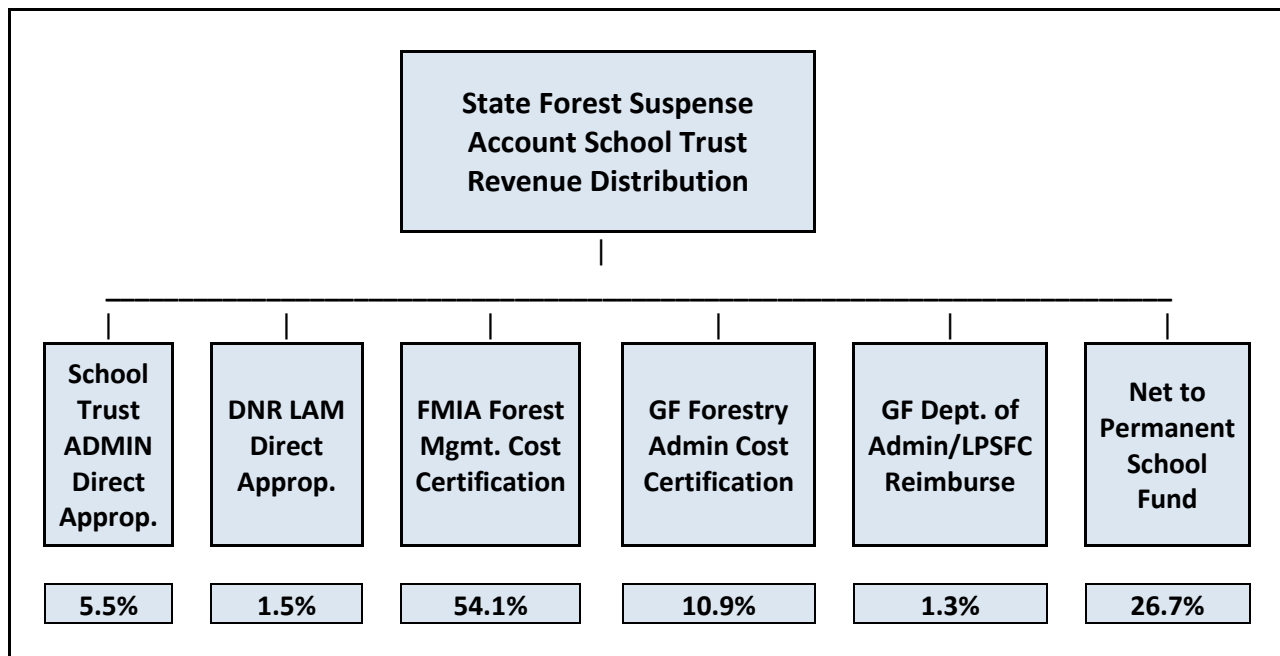


Figure 2: State Forest Suspense Account School Trust Revenue Distribution (M.S. 16A.125 qualifying and non-qualifying).

IV. FORESTRY TRUST COST CERTIFICATION HISTORY

For FY 2018, five-year average state forestry revenue from all managed acres was \$22.263 million. Five-year average qualifying combined trusts revenue was \$11.889 million. Five-year average sum of forestry trust cost certification transfers was \$8.600 million with average forestry net to the trust funds of \$3.289 million. After accounting for non-qualifying trust revenues, non-forestry direct appropriations, and non-forestry GF reimbursements, five-year average net to the trust funds was \$3.020 million (Table 2a). For FY 2018, five-year average certified forestry costs

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were as follows: forest management \$5.807 million, forest improvement, \$1.276 million, forest roads \$0.132 million, and administration \$1.385 million (Table 2b).

Table 2a: Forest Suspense Account History (School and University)

(amounts in thousands)	FY14	FY15	FY16	FY17	FY18	Avg.
Total Forestry Revenue	\$19,809	\$23,713	\$23,062	\$21,567	\$23,163	\$22,263
Forestry Trust Revenue	\$10,140	\$12,447	\$11,869	\$11,456	\$13,531	\$11,889
Cost Transfer to GF	(\$1,278)	(\$1,370)	(\$1,267)	(\$1,455)	(\$1,555)	(\$1,385)
Cost Transfer to FMIA	(\$6,607)	(\$6,853)	(\$7,033)	(\$7,878)	(\$7,704)	(\$7,215)
Sum Cert. Cost Transfers	(\$7,885)	(\$8,222)	(\$8,300)	(\$9,332)	(\$9,259)	(\$8,600)
Forestry Net to Trust	\$2,254	\$4,224	\$3,569	\$2,124	\$4,272	\$3,289
Non-Forestry Revenues	\$224	\$205	\$317	\$388	\$736	\$374
Non-Forestry Direct Appropriations						
DNR LAM	(\$200)	(\$200)	(\$200)	(\$200)	(\$206)	(\$201)
ADMIN			(\$300)	(\$550)	(\$778)	(\$543)
Non-Forestry Reimbursements						
ADMIN General Fund			(\$178)	(\$192)	(\$185)	(\$185)
LPSFC General Fund		(\$4)	(\$10)	(\$5)	(\$8)	(\$7)
Net to Trust	\$2,278	\$4,226	\$3,197	\$1,565	\$3,832	\$3,020

Table 2b: Forestry Certified Costs History (School and University).

(amounts in thousands)	FY14	FY15	FY16	FY17	FY18	Avg.
Forest Management	\$5,404	\$5,898	\$6,021	\$6,040	\$5,674	\$5,807
Forest Improvement	\$1,136	\$845	\$874	\$1,617	\$1,906	\$1,276
Forest Roads	\$67	\$109	\$138	\$221	\$124	\$132
Administration	\$1,278	\$1,370	\$1,267	\$1,455	\$1,555	\$1,385
Total	\$7,885	\$8,222	\$8,300	\$9,332	\$9,259	\$8,600

Explanation of Table 2b Color-codes

M.S.16A.125, Subd 5(d)

- FMIA transfers are: Forest Management, Forest Improvement and Forest Road Costs.
- General Fund transfer is Administration; effective FY14, protection costs are non-qualifying.

V. DNR FORESTRY TIMBER PROGRAM

In FY 2018, DNR Forestry sold 847,317 cord equivalents and harvested (scaled) 765,524 cord equivalents all species, products, and units of measure. In FY 2018, school trust land (STL) accounted for 455,690 cords sold, 56 percent of volume sold, and 415,873 cords harvested (scaled), 54.3 percent of cords harvested (scaled) (Figure 3). For the past three fiscal years, DNR Forestry volumes scaled were well below the long-term average. In FY 2018, STL volume scaled rebounded, primarily as a result of favorable winter logging weather.

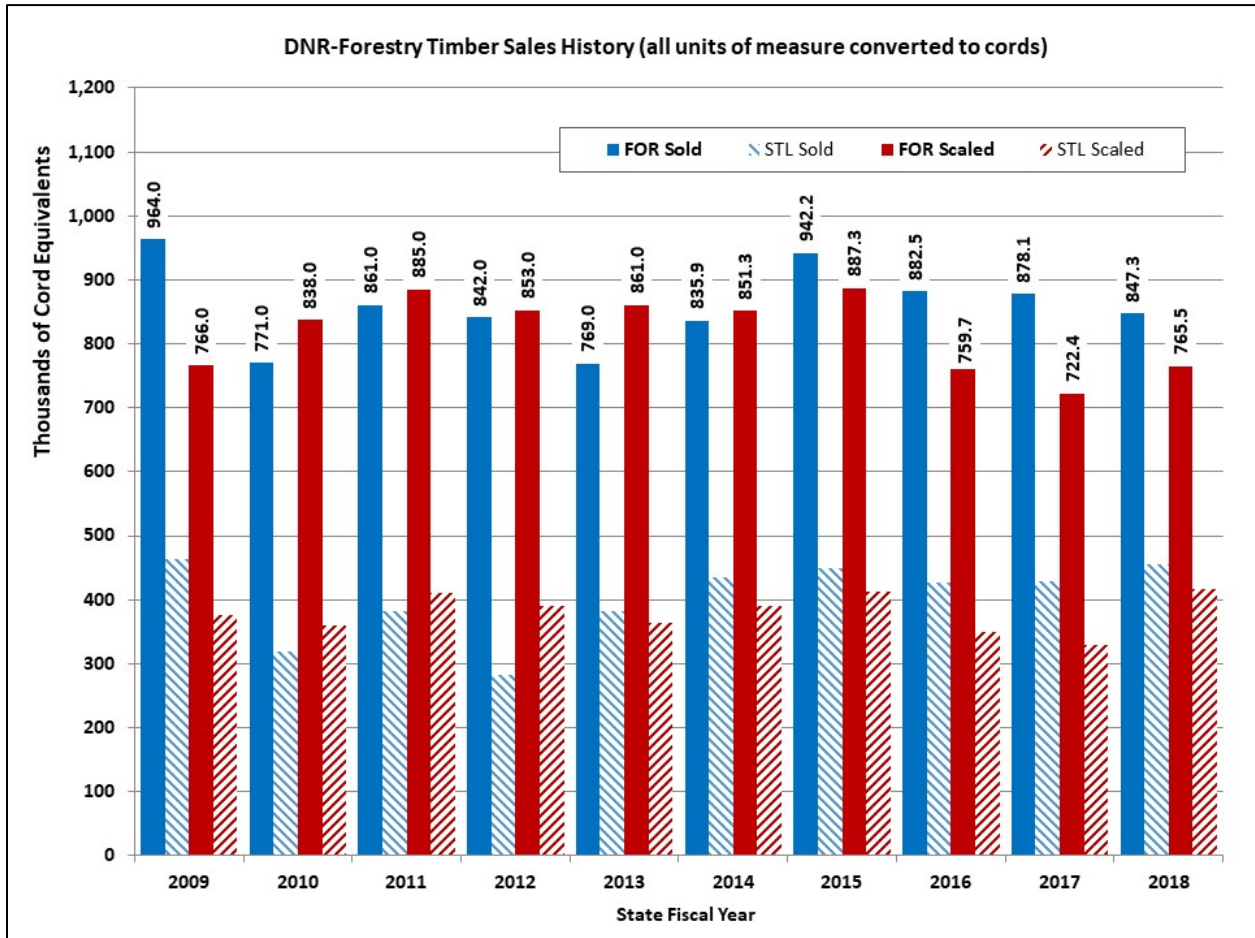


Figure 3: DNR Forestry 10-Year Timber Sales History, Volumes Sold and Harvested.

The unusually large volumes sold in FY 2008-09 were due to the re-offering of about 700,000 cords equivalents of timber sales that were forfeited without penalty in FY 2007 under the legislatively authorized “Logger Relief” program.

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Non-salvage DNR timber permits are valid for three years from the sale date. Hence, average sold and scaled prices are not the same in a given fiscal year. In FY 2018, the average price received for timber sold decreased to \$27.55 per cord compared to \$27.81 in FY 2017, a 0.9 percent decrease year-over-year. In FY 2018, the average price received for timber harvested (scaled) increased to \$27.86 per cord as compared to \$26.31 in FY 2017, a 5.9 percent increase year-over-year (Figure 4).

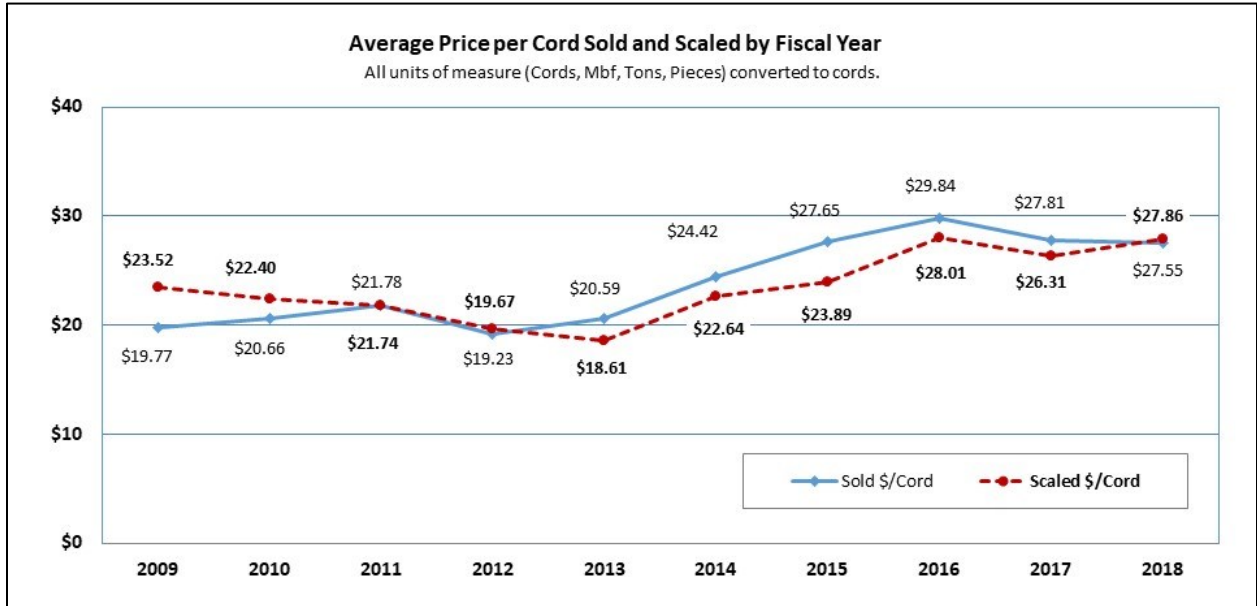


Figure 4: DNR Forestry 10-Year History Average Prices Received for Timber Sold and Scaled.

Due to the harvest of wind-damaged salvage timber sales in FY 2012-13, the average price per cord of timber harvested (scaled) decreased. Local market scarcity, driven by tight aspen supply, drove prices increases FY 2014-16. In FY 2017-18, below average harvest volumes added to the growing backlog of sold-not harvested inventory which pulled sell prices down.

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 recently completed Office of the Legislative Auditor (OLA) Evaluation Report on DNR Forest Management.¹ 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. Availabililty 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 included: profit potential, profitability, management efficiency, and land productivity. Of the land managing entities analyzed, operating margins ranged from -3.3 percent (Chippewa National Forest, CNF) to 66.2 percent (Potlatch Corp., PCH) with DNR Forestry managed STL reporting an operating margin of 31.4 percent (Table 3). Profit potential (gross revenue per cord sold) ranged from \$24.27 (Saint Louis County, SLC) per cord to \$107.90 per cord (Potlatch Corp., PCH). In terms of management efficiency, cost per cord ranged from \$19.63 per cord (Cass County, CAS) to \$36.82 per cord (CNF) with DNR Forestry managed STL reporting \$21.08 per cord. In terms of land productivity/policy, cords harvested per managed acre ranged from 0.22 (CNF) to 1.10 (PCH) with DNR Forestry managed STL reporting an average 0.31 cords harvested per managed acre.

¹ 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 as noted)	MNDNR School Trust FY2018	CAS County CY2017	SLC County CY2017	CNF Federal FY2018	PCH REIT CY2017
REVENUES					
Timber Sales (Stumpage)	\$11,766.6	\$2,098.3	\$3,972.9	\$3,383.8	\$160,372.0
Land Use	\$1,631.8	\$94.8	\$741.7	\$104.4	
Total Revenue	\$13,398.4	\$2,193.1	\$4,714.6	\$3,488.2	\$160,372.0
EXPENSES					
Total Forest Mgmt. Expenditure	\$9,187.8	\$1,008.7	\$4,263.5	\$3,602.5	\$54,267.0
INCOME FROM OPERATIONS					
Profit/(Loss) from Operations	\$4,210.6	\$1,184.4	\$451.1	(\$114.3)	\$106,105.0
PROFIT POTENTIAL					
Gross Timber Rev per Cord Sold (b)	\$25.82	\$35.60	\$24.27	\$36.52	\$107.90
Gross Revenue per Mgmt. Acre	\$9.93	\$12.18	\$7.49	\$7.59	\$118.79
PROFITABILITY					
Operating Margin	31.4%	54.0%	9.6%	-3.3%	66.2%
Operating P/(L) per Cord Harvested (c)	\$10.12	\$27.01	\$2.59	(\$1.11)	\$71.39
MGMT EFFICIENCY					
Cost per cord (d)	\$21.08	\$19.63	\$25.24	\$36.82	\$36.51
LAND PRODUCTIVITY/MGMT. POLICY					
Cords Harvested per Mgmt. Acre	0.31	0.24	0.23	0.22	1.10
STATISTICAL DATA					
Fiscal Year End	June 30	Dec 31	Dec 31	Sept 30	Dec 31
Cords Sold	455.7	58.9	163.7	92.7	1,486.3
Cords Harvested	415.9	43.9	174.1	103.0	1,486.3
Average of Cords Sold & Harvested	435.8	51.4	168.9	97.8	1,486.3
Timber Mgmt. Acres (e)	1,349.5	180.0	629.6	459.3	1,350.0
Total Admin Acres	2,520.3	257.4	890.8	666.5	1,374.0

Table Notes

- 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 financial data requests;
Potlatch Timber REIT-Resource Management Segment AL, AR, ID, MN, MS (PCH), data source =10K annual report; Minnesota ownership = 144,000 acres or 10.5% of total ownership.
- b) Timber sales revenue divided by cords sold.
- c) P/(L) from operations divided by cords harvested.
- d) Total forest management expenditure divided by average of cords sold & 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 Forestry managed STL operating margins have ranged from a high 33.6 percent in FY 2015 to a low 17.3 percent in FY 2017 (Figure 5). To date, DNR Forestry managed STL operating margins have been in close proximity to SLC, about median compared to other managing entities.

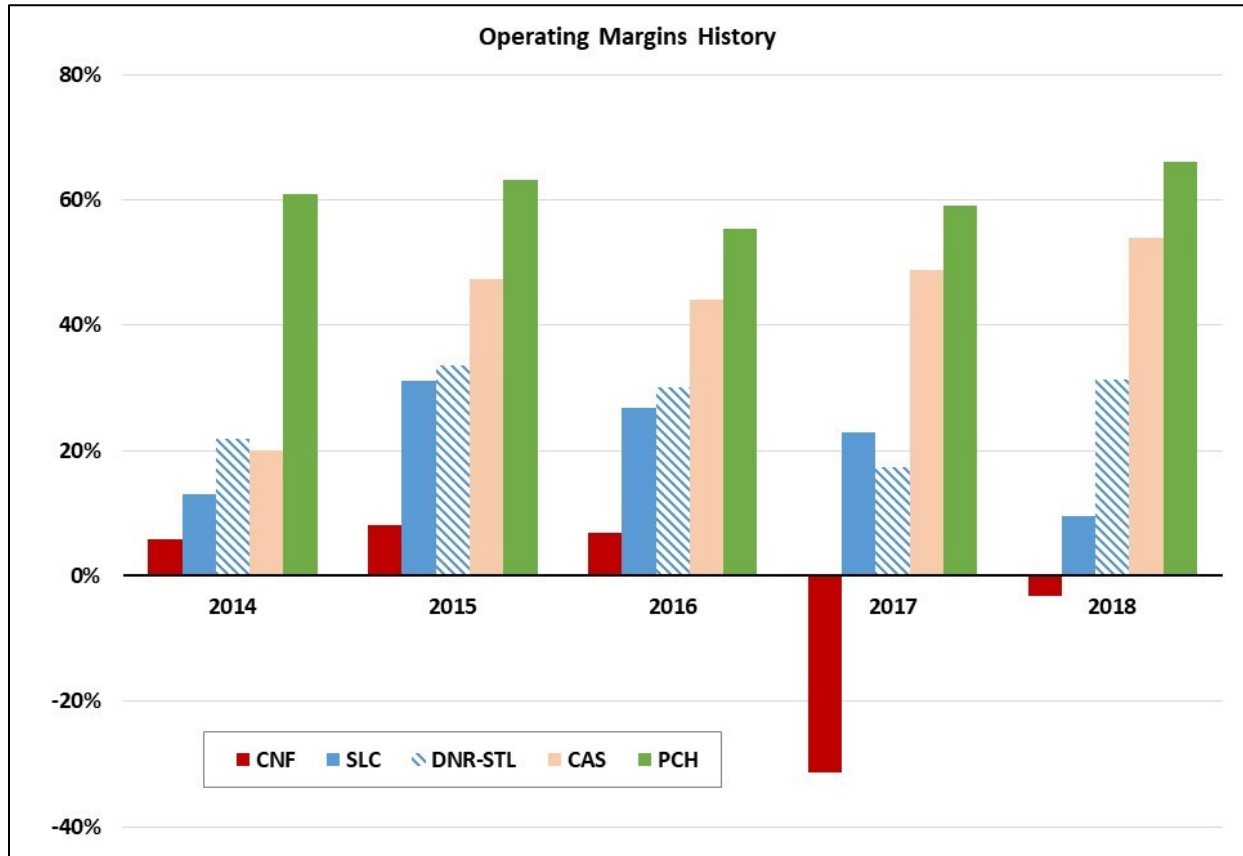


Figure 5: Minn. Stat. 16A.125 Subd. 5.c. Operating Margins History.

Exhibit 1: Fiscal Year 2018 Minn. Statute 16A.125 Cost Allocation

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

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 Subject to Cost Certification	5,287,326
Total Trust Acres Percent of Total Admin Acres Subject to Cost Certification	45.179%
Permanent School Fund Percent of Total Admin Acres Subject to Cost Certification	44.832%
University Trust Percent of Total Admin Acres Subject to Cost Certification	0.347%
Permanent School Fund Percent of Total Trust Acres Subject to Cost Certification	99.232%
University Trust Percent of Total Trust Acres Subject to Cost 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	\$21,742,782.70
Sum of Allowable Forestry General Operations (support) Costs	\$6,468,029.95

B. Forest Management Costs for Trust Lands

1. Management Cost Determination:

Net Qualifying Forestry General Fund/FMIA Direct Costs for Management	\$2,158,144.53
Management Portion of Forestry General Operating GF/FMIA Costs	\$974,697.65
Total Management Costs to be Allocated	\$3,132,842.18
School Trust Management Cost Allocation at 44.832%	\$1,404,518.18
University Trust Management Cost at 0.347%	\$10,869.76

2. Timber Sales Cost Determination:

Net Qualifying Forestry General Fund/FMIA Direct Costs for Timber Sales	\$6,493,095.97
Timber Sales Portion of Forestry General Operating GF/FMIA Costs	\$2,932,521.55
Total Timber Sales Costs	\$9,425,617.52
School Trust Timber Sales Cost Allocation at 44.832%	\$4,225,699.99
University Trust Timber Sales Cost Allocation at 0.347%	\$32,703.29

3. Total General Fund/FMIA Management Costs for Trust Lands:

Sum of Mgmt. Costs for School Trust Lands	\$5,630,218.17
Sum of Mgmt. Costs for University Trust Lands	\$43,573.05

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C. Forest Improvement Costs for Trust Lands

Sum of Allowable Forestry General Fund/FMIA Forest Improvement Costs	\$2,906,425.76
Forest Improvement Portion of Forestry General Operating GF/FMIA Costs	\$1,312,649.04
Total Forest Improvement Costs	\$4,219,074.80
School Trust Forest Improvement Cost Allocation at 44.832%	\$1,891,498.81
University Trust Forest Improvement Cost at 0.347%	\$14,638.58

D. Forest Road Costs for Trust Lands

Sum of Allowable Forestry General Fund/FMIA State Forest Road Costs	\$904,470.64
State Forest Roads Portion of Forestry General Operating GF/FMIA Costs	\$408,492.29
Sum Qualifying State Forest Road Costs	\$1,312,962.92
State Forest Roads Cost Allocation to Trust Lands at 9.424%	\$123,733.63
School Trust Forest Roads Cost Allocation	\$122,783.39
University Trust Forest Roads Cost Allocation	\$950.24

E. Administrative Costs for Trust Lands

Sum of Allowable Forestry General Fund/FMIA Administrative Costs	\$2,812,615.85
Administrative Portion of Forestry General Operating GF/FMIA Costs	\$839,669.43
Total Net Admin Costs	\$3,652,285.28
Total Direct Trust Land Costs (includes General Ops allocations)	\$7,703,662.24
Total Qualifying General Fund/FMIA Costs Less Admin	\$18,090,497.42
Trust Direct Costs as a Percent of Total Qualifying GF/FMIA Direct Costs	42.584%
Trust Portion of Administrative Costs	\$1,555,290.14
School Trust Administrative Cost Allocation	\$1,543,345.96
University Trust Administrative Cost Allocation	\$11,944.17