NORTHERN COUNTIES LAND USE COORDINATING BOARD

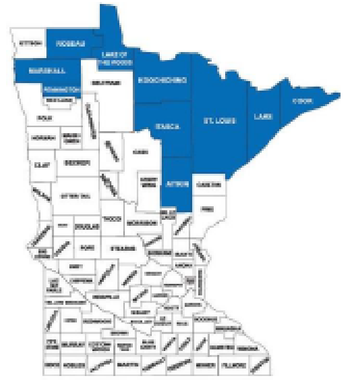
PILT

Payment in Lieu of Taxes

Final Report

March 30, 2022

NORTHERN COUNTIES LAND USE COORDINATING BOARD



Greetings:

Northern Counties Land Use Coordinating Board (NCLUCB), a ten-county member joint-powers board, comprises 65% of the state's 8.5 million acres of Payment in Lieu of Taxes (PILT) public lands. Lands used and treasured by all Minnesotans. As county commissioners representing these lands, we share oversight responsibilities with our state land management partners and are disproportionately dependent on PILT to support our local government operations. In that context, as co-managers, fiscal beneficiaries, and hosts of the largest share of these lands, we have closely followed and participated in several PILT policy studies and their resultant revenue consequences over the last decade. At our April 2021 Board meeting, our discussions confronted several contradictions between these studies, the legislative intent expressed in state statute and the distribution of PILT funds state-wide. The enclosed report is a product of that meeting.

Authored by our consultant Keith Carlson, retired fiscal analyst of the Senate Tax Committee and more recently, Executive Director of the Minnesota Inter-County Association, this report examines the complex formulas and land classification of PILT eligible lands and tracks how PILT distributions have become distorted over the years. The report also offers some measures by which the 2022 Legislature could reduce these distortions and more consistently reflect legislative intent.

Thank you for your time and consideration.

Respectfully,

Ann Marcotte
Chair, NCLUCB

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EXECUTIVE SUMMARY

This report presents the results of a study authorized by the Northern Counties Land Use Coordinating Board (NCLUCB) in the spring of 2021. NCLUCB was created in 1983 as a joint powers board consisting of Aitkin, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, Roseau and St. Louis counties. NCLUCB was created to provide a local government perspective on the regulation, implementation, and coordination of environmental and natural resource polices with our state and federal partners.

The purpose of the study is to analyze whether Payment in Lieu of Taxes (PILT) is meeting its statutory purpose: Minn. Stat. § 477A.10

> **(1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land; •**
>
> **(2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and •**
>
> **(3) to address the need to manage state lands held in trust for the local taxing districts.**

PILT was enacted in 1979. Its initial purpose was to compensate local governments for the direct and indirect costs related to state-owned natural resource land. All eighty-seven (87) counties receive PILT with some of those monies shared with townships and school districts.

The major categories of PILT lands are:

Acquired Natural Resources Land (NRL)–Land administered by DNR that was generally acquired by purchase, condemnation, or gift. Includes wildlife management land reported separately after 2012.

DNR-Administered Other Natural Resources Land – Land, other than acquired natural resource land, owned by the state and administered by the DNR such as school trust land.

County-Administered Other Natural Resources Land – Generally tax-forfeited land, other than platted lots within a city.

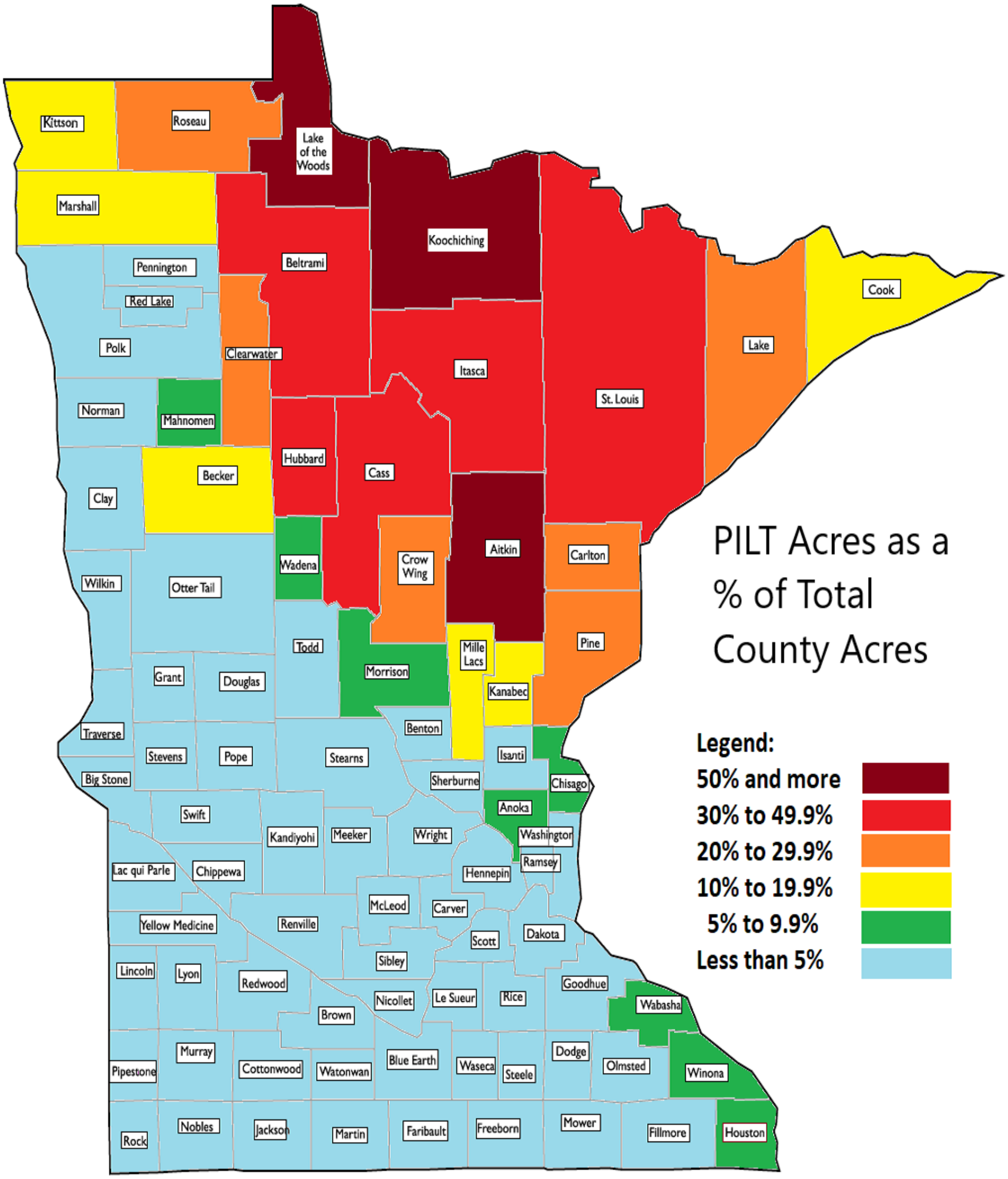
PILT payments have increased 560%, or $30.8 million over its 41-year history. However, PILT's distribution among the counties has been very unequal – not aligned with the geographic location of PILT land, which is concentrated in northern Minnesota.

Table 1
1979/80 to 2021 Change in PILT by Major Categories

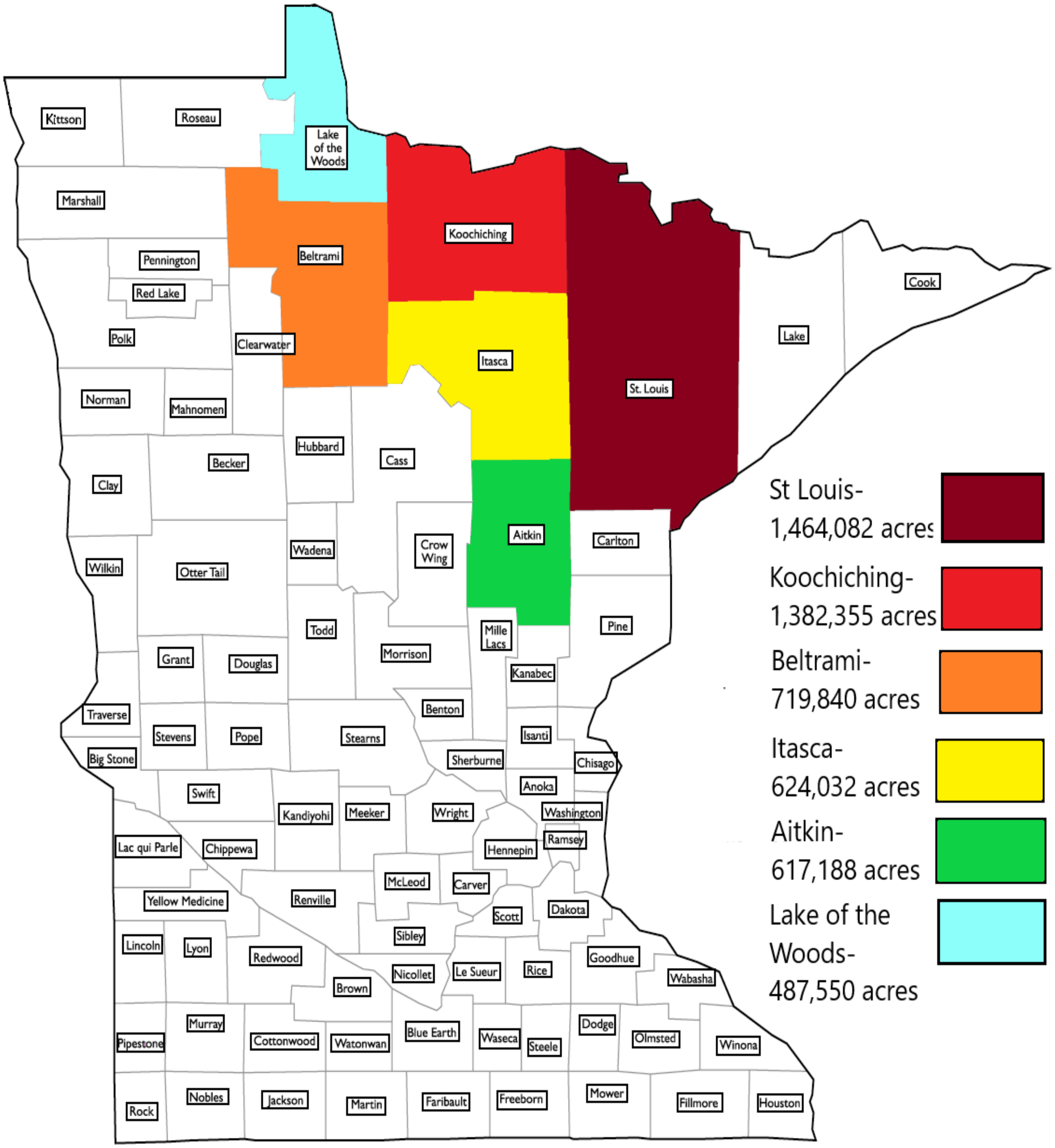
PILT Category	1979	2020	$ Change	% Change
Acquired NRL*	$1,653,972	**$21,233,219**	**$19,579,247**	**1083.8%**
County-Administered Other NRL	$2,099,394	$5,569,943	$3,470,549	65.3%
DNR-Administered Other NRL	$1,759,083	$8,191,521	$6,432,438	265.7%

*Includes Wildlife Management Land

95% OF PILT LAND IS IN NORTHERN MN

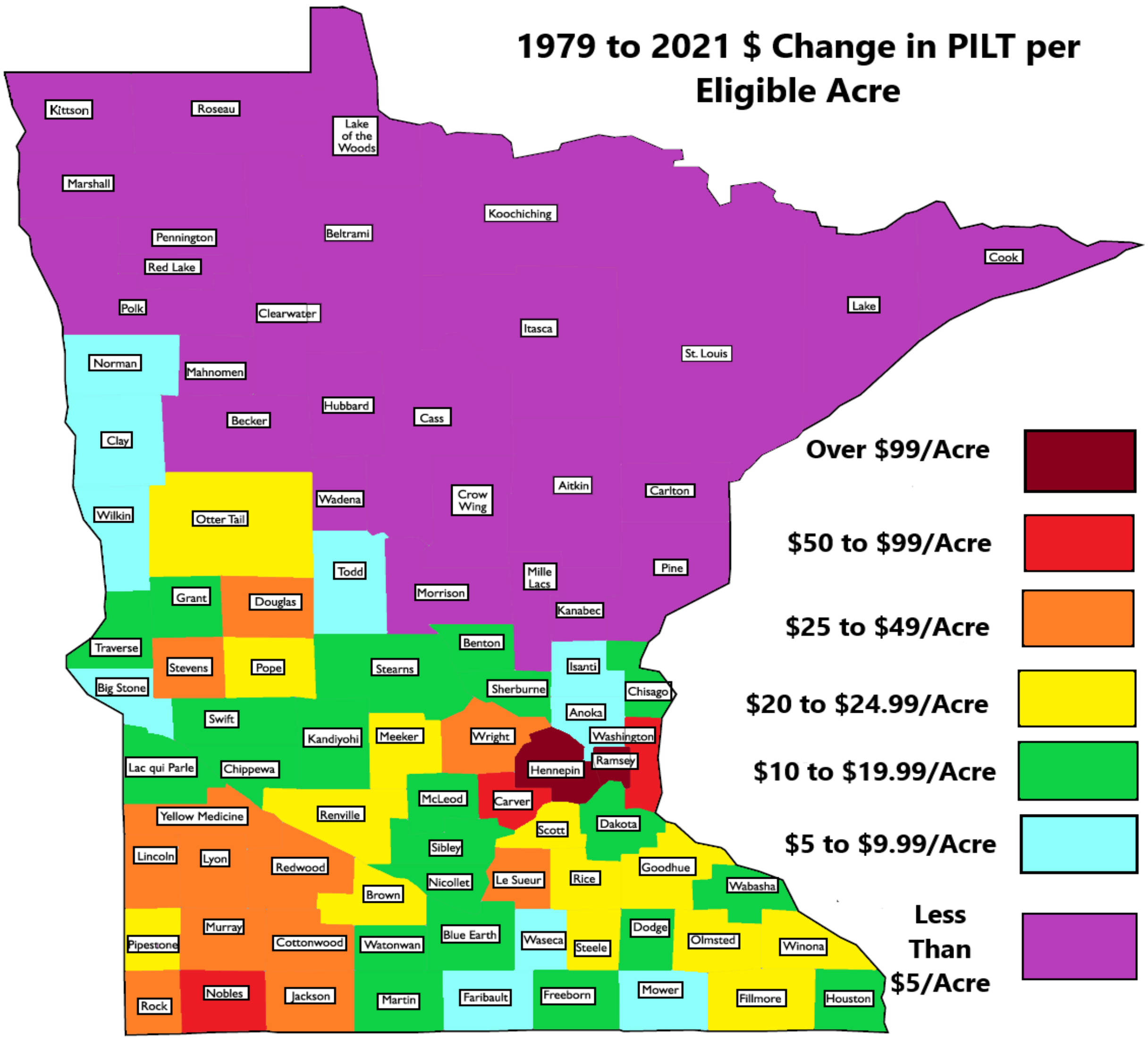


SIX (6) COUNTIES CONTAIN 70% OF PILT LAND YET ONLY RECEIVE 40% OF TOTAL PILT PAYMENTS



Northern counties have seen only nominal changes in PILT payments over the last 41-year history; increasing minimally by an average of $2.51 per acre. In comparison, southern counties received an average PILT payment increase of $24.43 per acre. And, a few counties received PILT payment increases of over $100 per acre.

NORTHERN COUNTIES HAVE THE LARGEST AMOUNT OF PILT LANDS AND RECEIVE THE LOWEST DOLLAR INCREASES- LESS THAN $5 PER ACRE



The reasons why PILT increases have become inequitable are; 1. only Acquired NRL and Wildlife Management Land PILT payments are based on value (all other PILT payments are based on a flat-rate); 2. The hyper-inflation in only those value-based payments; and 3. the failure to take into account the lost opportunity for development.

PILT payment rates per acre are far more generous for Acquired NRL. In the 77 counties that have elected the more generous ¾ of 1% appraised value payment option that has been in effect since 1996, on average they received increases of **$22.17 per acre, nearly double the rate of inflation,** for their Acquired NRL.

The original and current PILT reimbursement rates by major category are shown below:

Table 2
PILT Reimbursement Rates

Category `` `	1979	2021
Acquired Natural Resources Land	$3/Acre	$5.133/Acre or ¾ of 1% of Appraised Value, whichever is higher
County-Administered Other Natural Resources Land	$.75/Acre	$2/Acre
(DNR) Commissioner-Administered Other Natural Resources Land	$.375/Acre	$2/Acre

Tables 3 and 4 show the disproportionate changes in PILT statewide by the major categories.

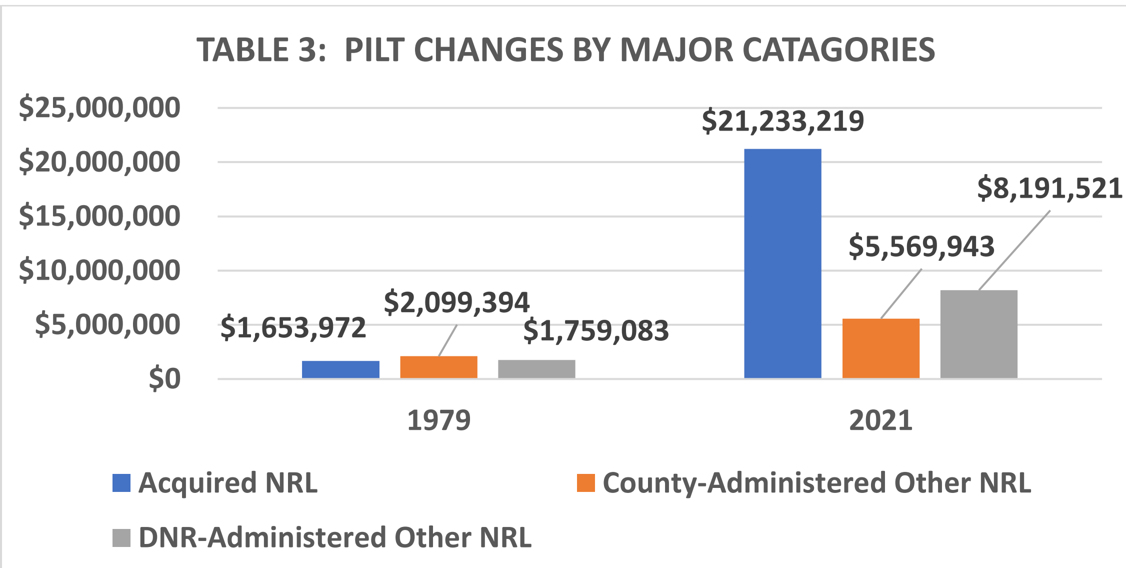
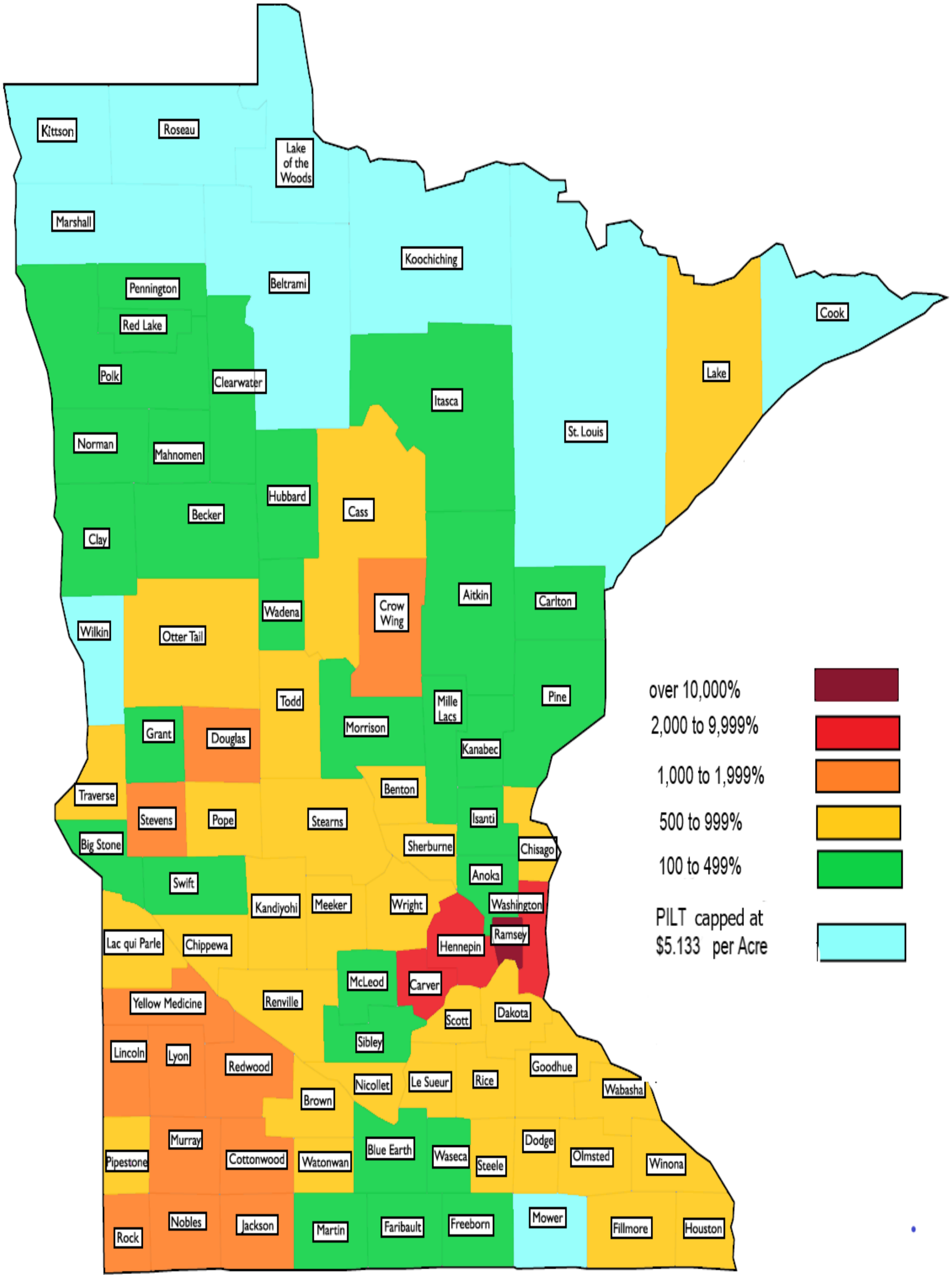
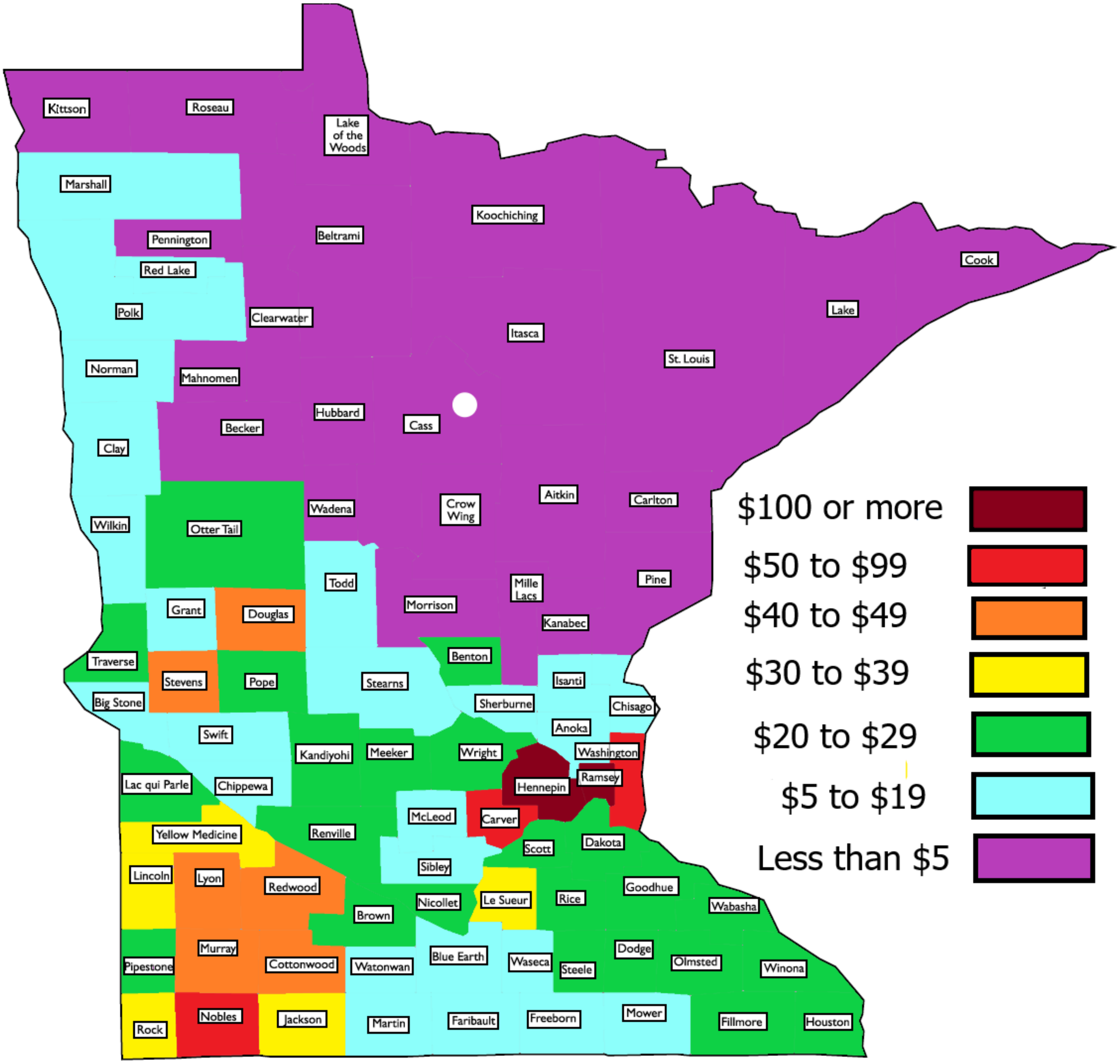


Table 4 1980 to 2021 PILT Change by Major Category		
PILT Category	**$ Change**	**% Change**
Acquired NRL	**$19,579,247**	**1083.8%**
County-Administered Other NRL	$3,470,549	65.3%
DNR-Administered Other NRL	$6,432,438	265.7%

ACQUIRED NRL VALUATION CHANGES FROM 1980 to 2020

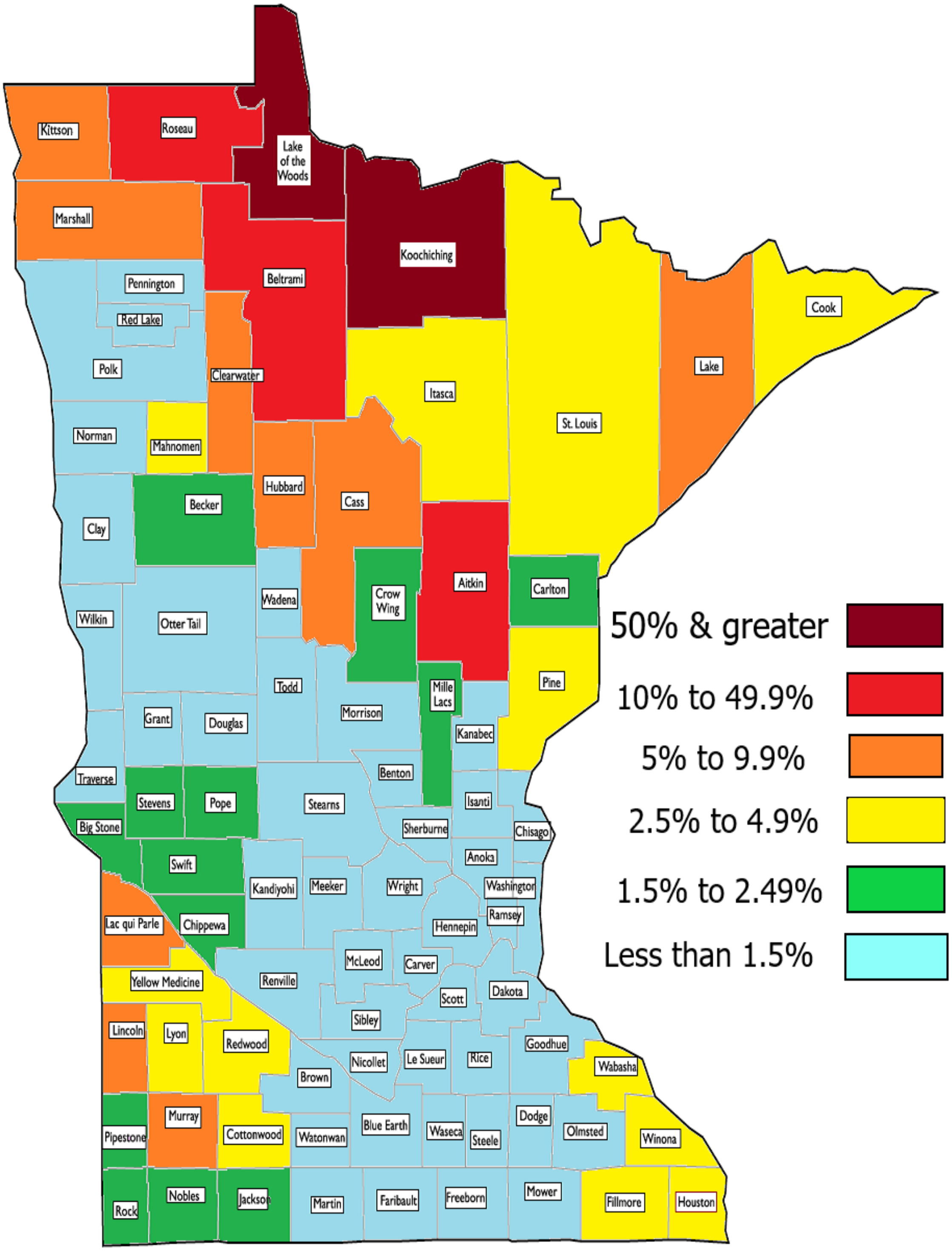


AVERAGE PER ACRE PILT PAYMENTS IN 2020



In 1995, before the ¾ of 1% appraised value option went into effect for Acquired Natural Resources Land, the PILT per acre paid to the highest-compensated county was 8 times that paid to the lowest-paid county. By 2020, the difference had grown to 170 times.

2020 PILT AS A PERCENT OF 2020 COUNTY CERTIFIED LEVY



PROPERTY TAX IMPACTS OF PILT

Compensating "***local units of government for the loss of tax base from state ownership of land and the need to provide services for state land***" is one of the statutory purposes of PILT. (Minn. Stat. § 477A.10.1) PILT is a larger percentage of the northern counties' property tax levies where PILT lands are concentrated and are a large portion of the counties' total acreage. The degree of a county's reliance on PILT is directly related to the loss in tax base from the tax exemption of PILT land.

Not only do counties lose tax base due to PILT lands' tax exemption, they also forego the "opportunity" of increased tax base from development on lakeshore within PILT land.

An analysis prepared for this study determined whether a county's PILT equals, exceeds or underpays relative to what the county property taxes would be on the tax-exempt PILT land. The analysis estimated that there was a shortfall in PILT payments for this purpose in about half the counties. The ten counties with the largest estimated shortfall in PILT relative to what would be raised if the PILT land was taxable is shown in the table below.

TABLE 5

County	(Shortfall) of County Share of PILT Relative to Estimated County Tax on PILT Land
St. Louis	($4,610,486)
Itasca	($2,283,012)
Aitkin	($1,695,570)
Cass	($1,359,627)
Carlton	($759,851)
Beltrami	($595,818)
Pine	($592,549)
Cook	($572,267)
Clearwater	($539,984)
Hubbard	($522,791)

Valuation determined from the County Exempt and PILT Property Report- 2016.

RECOMMENDATIONS

Per MN Statutes 477A.10, the purpose of PILT is:

(1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land;

(2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and

(3) to address the need to manage state lands held in trust for the local taxing districts.

Our analysis compared the amount of 2020 PILT received by the county to the valuation of all their PILT land, multiplied by the pay 2020 county tax rate. It clearly shows a number of counties' payments are coming up short in meeting PILT's statutory purposes. (Minn. Stat. § 477A.10)

RECOMMENDATION #1

Increase PILT for County and DNR Administered Other Natural Resources Land $1 Per Acre:
Cost. – $6.9 million.

The study analyzed whether PILT effectively compensates counties "for the loss of tax base from state ownership of land". For half the counties, PILT is not adequately compensating them for the tax base loss due to the tax-exempt status of PILT land. Fifteen of the counties suffering the largest loss are northern Minnesota counties. All of these counties also share the distinction of receiving PILT payments of less than $5 per acre. The absence of any significant growth in PILT for these, and several of the other undercompensated counties for the tax-exempt status of PILT land, demands that PILT payments need to be increased for those counties.

RECOMMENDATION #2

Create a new category of PILT for counties with a high-concentration of PILT land equal to:

- **18¢ per PILT acre for counties where PILT land is 25% or more of its total acreage or**
- **8¢ per PILT acre for counties where PILT land equals or exceeds 10% or more but less than 25% of its total acreage.**

Cost. – $3.4 million

As shown in the previous maps, nearly 95% of Minnesota's 8 million acres of PILT lands are concentrated in northern Minnesota. Yet these same maps also show the in counties where their PILT land is 10% or greater, the counties average less than $5 per acre in PILT payments. In contrast, counties where PILT land is less than 10% of the county's acreage, they receive an average payment of $30.49 per acre. Thus, paradoxically, PILT payments substantially increase in a county where PILT acreage is minimal, and PILT payments decrease in a county where PILT acreage is significant.

RECOMMENDATION # 3

Index PILT's per acre payment rates for inflation. Cost - Depends on rate of inflation and only occurs in future bienniums.

The per acre payment rates for PILT should be indexed for inflation so they can grow just like the PILT payments for Acquired Natural Resources Land and Wildlife Management Lands do right now for the vast majority of counties who elect the 3/4 of 1% payment option. The per acre payment rates were indexed from 2001 until 2011 when the legislature repealed future, automatic increases for County- and DNR-Administered Other Natural Resources Land but not for Acquired Natural Resources Land and Wildlife Management Lands whose payments have continued to grow for those counties electing the 3/4 or 1% payment option.

RECOMMENDATION # 4

Add a hold-harmless provision into statute for the Acquired NRL and Wildlife Management Land.
Cost – Depends on 2022 reassessment

Every six years, the valuation used for computation of PILT for Acquired NRL and Wildlife Management Land is redetermined by local assessors. Possibly due in part to the impacts of the 2007-2008 Great Recession, the valuation for rural vacant land largely used for computation of PILT for these lands fell in 37 counties between 2010 and 2016. Those lower values were used for computation of PILT for the following six years. The reductions in valuation and their corresponding PILT were as high as (38.5%).

RECOMMENDATION # 5

Study the adequacy of current PILT payments for state-owned lakeshore.
Cost - Negligible

Those counties containing Acquired NRL with lakeshore receive PILT payments based on the value of that lakeshore. In the northern counties where the other categories of PILT land, County- and DNR-Administered Other Natural Resources Land – predominate, their lakeshore does not qualify for payment based on the ¾ of 1% of appraised value option. Documentation via the study would identify the valuation of that land and allow exploration of options to redress the imbalance in PILT payments on lakeshore. This recommendation is consistent with the 1994 DNR study entitled

Payment In Lieu of Taxes Study: Ad Valorem vs. Current Payments on State-Owned Land, which also recommended a more in-depth study of this issue.

*Please note while this report does highlight the current inequities in distribution within the PILT program, it does not advocate for a redistribution of existing funds. The report does, however, advocate for an increase in PILT funding to remedy the inequities identified.

The complete report may be located at https://www.nclucb.org/ after March 1, 2022.
The report author, Keith Carlson can be reached at keithecarls@gmail.com
Contributor, John Ongaro, Government Relations Director, St. Louis County, MN

Chapter 1

PILT History

Minnesota's Payment in Lieu of Taxes program (PILT) for state-owned natural resources land was enacted in 1979.[1] Already existent was a parallel program for wildlife management land. The latter became statewide with enactment of a minimum per acre payment for all wildlife management land of $.15 per acre in 1953. Following a couple of subsequent iterations, the minimum per acre payment was raised to $.50 per acre in 1971 where it remained until the parallel program was repealed in 2013 and wildlife management land was fully incorporated into the PILT program.[2] Prior to repeal, payments for wildlife management land under the parallel program were offset or deducted from PILT payments through 2000. From 2001 until the parallel program's 2013 repeal, PILT was offset or deducted from the payments under the parallel program. Another payment option for wildlife management lands of ¾ of 1% of appraised value was added to the parallel program in 1979.

At the time of enactment, PILT had three major categories

1. **Acquired Natural Resources Land (NRL)**– Land administered by DNR that was acquired by purchase, condemnation, or gift or by donation from the county under Chapter 84A.
2. **(DNR) Commissioner-Administered Other Natural Resources Land** – Land, other than acquired natural resource land, owned by the state and administered by the DNR
3. **County-Administered Other Natural Resources Land** – Tax-forfeited land, other than platted lots within a city, administered by the county.

These three categories have continued to be the major categories of land qualifying for PILT throughout the program's life. Three additional, minor categories have been added since 1979:

- Military Game Refuge
- Land Utilization Project Lands, and
- Transportation Wetlands

Wildlife Management Land was separated out of Acquired Natural Resources Land (the payment rates remained identical) in 2013. (Note Wildlife Management Land qualified for payment under both PILT and the parallel program under MS 97A.061.)

The payment rates in 1979 and currently are as follows:

[1] *Laws 1979, Chapter 303, section 2-4. It was codified in Minnesota Statutes (MS), sections 477A.12 through 477A.14*.

[2] *It was authorized under then MS 97.49, subd. 3. It was recodified as MS 97A.061 before being repealed in 2013.*

Table 6 PILT Payment Rates by Category and Year		
PILT Category	**1979 Rates Per Acre as Enacted**	**2021 Statutory Rates Per Acre**
Acquired Natural Resources Land *	$3.00	$5.133 (or ¾ of 1% of Appraised Value If Higher)
County-Administered Other Natural Resources Land	$0.75	$2.00
DNR-Administered Other Natural Resources Land	$0.375	$2.00

The amount of PILT payments by year is shown on the following table.

Table 7. Gross Payment In Lieu of Taxes by Calendar Year					
Year	**Gross Payment**	**Source**	**Year**	**Gross Payment**	**Source**
1980	$5,512,449	*	2001	$11,778,545	*
1981	$5,533,153	*	2002	$12,013,124	*
1982	$5,505,289	*	2003	$12,587,000	*
1983	$5,531,426	*	2004	$13,020,924	*
1984	$5,538,006	*	2005	$13,379,615	*
1985	$5,563,029	*	2006	$19,657,301	*
1986	$5,553,832	*	2007	$20,338,313	*
1987	$5,557,952	*	2008	$21,017,283	*
1988	$5,585,148	*	2009	$21,814,862	*
1989	$5,610,179	*	2010	$21,768,104	*
1990	$5,645,557	*	2011	$25,491,857	*
1991	$5,676,527	*	2012	$25,626,000	**
1992	$5,705,912	*	2013	$30,596,993	*
1993	$5,771,737	*	2014	$31,437,000	**
1994	$5,811,699	*	2015	$31,707,000	**
1995	$5,841,086	*	2016	$31,838,000	**
1996	$6,539,770	*	2017	$32,130,000	**
1997	$6,638,151	*	2018	$35,783,000	**
1998	$6,744,969	*	2019	$35,940,000	**
1999	$6,836,000	*	2020	$35,789,837	*
2000	$6,896,679	*	2021	$36,355,759	*

* DNR/Department of Revenue

** Department of Management and Budget

Legislative Changes

Ten changes have occurred in the PILT Program since enactment in 1979. They are shown on the following table.

Table 8 Legislative Changes in PILT since 1979 Enactment	
Year of Enactment	**Change**
1979	Option to receive payment based on 3/4% of appraised value added for Wildlife Management Land under separate program under MS 97A.061
1990	The federal government's Land Utilization Project (LUP) Land leased to the state was added to DNR-Administered Other Natural Resources Land effective in 1990 and thereafter
1995	Option to receive payment based on 3/4% of appraised value or $3 per acre (whichever is higher) added for Acquired Natural Resources Land beginning in 1996
2000	The per acre payment rates were adjusted for inflation beginning in 2001. The offset for payments under MS 97A.061, payments for wildlife management land, and 272.68, 30% of rents paid on government-acquired property, against PILT payments, was eliminated beginning in 2001. It was replaced with PILT being offset against the Wildlife Management Land payment under MS 97A.061. The final determination of PILT and its payment was shifted from the Department of Natural Resources to the Department of Revenue.
2001	MNDOT-owned Transportation Wetlands acquired from a private owner in a county containing more than 500 acres of those wetlands became eligible for PILT at the same payment rate as Acquired Natural Resources Land beginning in 2002
2005	The payment rate for LUP Land was increased to $.75 per acre beginning in 2006. The Military Game Refuge (at Camp Ripley) became eligible for payment at 50% of the Acquired Natural Resources Land per acre payment rate beginning in 2007 under MS 97A.061
2011	The inflation adjustment for the per acre payment rates was eliminated and the per acre payment rates set at $5.133/acre for Acquired Natural Resources Land and Transportation Land, $1.283/acre for County-Administered Other Natural Resources Land and LUP Land and $.642/acre for DNR-Administered Other Natural Resources Land
2013 and 2014	The separate payment for Wildlife Management Land under MS 97A.061 is repealed effective in 2013 and Wildlife Management Land is broken out as a separate category for PILT and its payment rate set at the same rate as Acquired Natural Resources Land. Previously, Wildlife Management Land was included within Acquired Natural Resources Land. The Military Game Refuge was brought into the PILT statute, $300,000 was appropriated for ditch assessments on Consolidated Conservation (Con Con) lands, and the payment rate for LUP Land was increased to $5.133/acre and the payment rate for both County- and DNR-Administered Other Natural Resources Land was increased to $1.50/acre, all effective in 2013
2017	The payment rate for County- and DNR-Administered Other Natural Resources Land was increased to $2/acre effective in 2018

While the legislative changes provide a framework for evaluation of PILT changes over its 41-year history, it is only part of the story of what's driving PILT expenditures and changes in its geographic distribution, which has changed dramatically.

An examination of **Table 7** on page 14 shows that there were major increases in PILT in 2001, 2006, 2011, 2013 and 2018 of 71%, 47%, 17%, 19% and 11% respectively. The increases for 2001, 2006 and 2011 were attributable to factors other than legislation. By year, the reasons for those changes are discussed in **Table 9** below.

Table 9
Reasons for Major Increases in PILT

Year	Reason
2001	Of the $4,882,00 increase, over $2,272,000 was due to county assessors' redetermination of appraised value for Acquired Natural Resources Land occurring every five years at that time, where the affected counties' PILT was determined based on the ¾ of 1% of appraised value option. Another $1,891,000 was due to reclassification of previously DNR-Administered Other Natural Resources Land – with a PILT payment rate of $.45 per acre – to Acquired Natural Resources Land – with a PILT payment rate of $3.57 per acre. Some of the affected lands were Consolidated Conservation, or Con Con land, that tax forfeited in the 1930's and had been administered by the DNR since then.
2006	The 2006 increase of over $6,277,000 was primarily due to county assessors' redetermination of appraised value for Acquired Natural Resources Land occurring every five years at that time, where the affected counties' PILT was determined based on the ¾ of 1% of appraised value option
20111	The 2011 increase of over $3,724,000 was primarily due to county assessors' redetermination of appraised value for Acquired Natural Resources Land occurring every five years (now six years), where the affected counties' PILT was determined based on the ¾of 1% of appraised value option
2013	The 2013 increase of over $4,970,000 was due to legislation, particularly the increase in the per acre payment rate for DNR-Administered Other Natural Resources Land from $.642 to $1.50 per acre. Over $3,516,000 of the increase was due to this factor.
2018	Most of the $3,653,000 increase was attributable to the 33% increase in the per acre payment rate for DNR- and County-Administered Other Natural Resources Land from $1.50 to $2.00 per acre.

What Were the Effects of the ¾ of 1% of Appraised Value Option?

The 1995 legislative change that created an option for counties to receive PILT payment based on ¾ of 1% of appraised value for Acquired Natural Resources Land in conjunction with county assessors' reappraisal of those properties every 5 years (every 6 years after 2010) have resulted in significant increases in PILT. In just 6 years, from 2000 to 2006, PILT nearly tripled, from $6,896,679 to $19,657,301. While the increase in itself was dramatic, its geographic distribution also changed significantly.

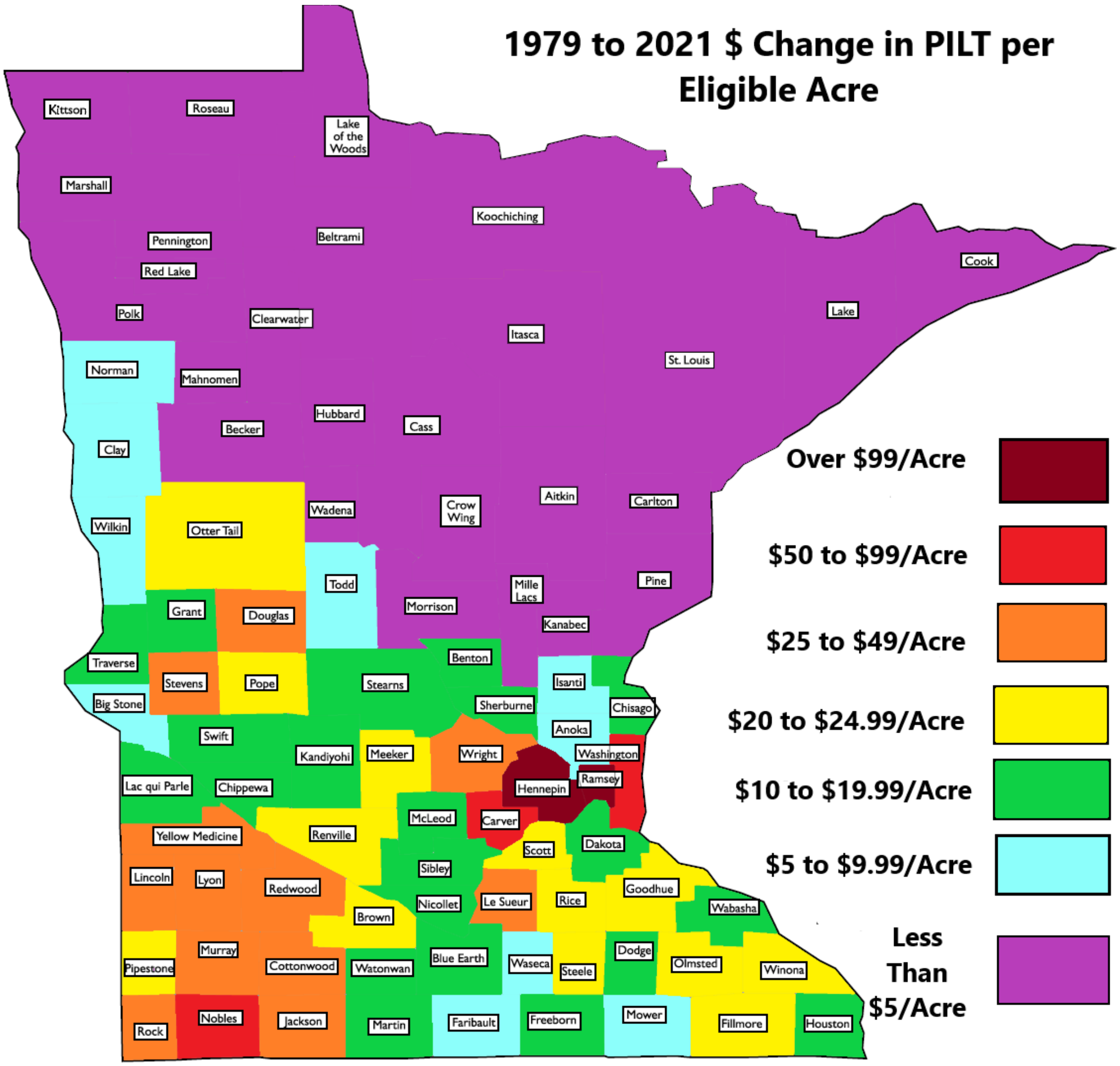
Table 10 1979/80 to 2021 Change in PILT by Major Categories				
PILT Category	**1979/80**	**2021**	**$ Change**	**% Change**
Acquired NRL*	$1,653,972	**$21,233,219**	**$19,579,247**	**1083.8%**
County-Administered Other NRL	$2,099,394	$5,569,943	$3,470,549	65.3%
DNR-Administered Other NRL	$1,759,083	$8,191,521	$6,432,438	265.7%

*Includes Wildlife Management Land

As **Table 10** above shows, PILT for Acquired Natural Resources Land increased dramatically more than the other two categories – over 3.2 times more than DNR-Administered Other Natural Resources Land and over 7.2 times more than County-Administered Natural Resources Land. Thus, the type of PILT land in a county is a major factor in how much its PILT payment grew between 1980 and 2021, particularly the period following 1995 when the ¾ of 1% of appraised value option went into effect for Acquired Natural Resources Land.

While there was always a distinction in the amount of PILT a county received based on the categories of PILT land contained within it, after 1995 the difference between the amount of PILT received per eligible acre by a county receiving the highest level of payment and that of a county receiving the lowest level of payment increased dramatically.

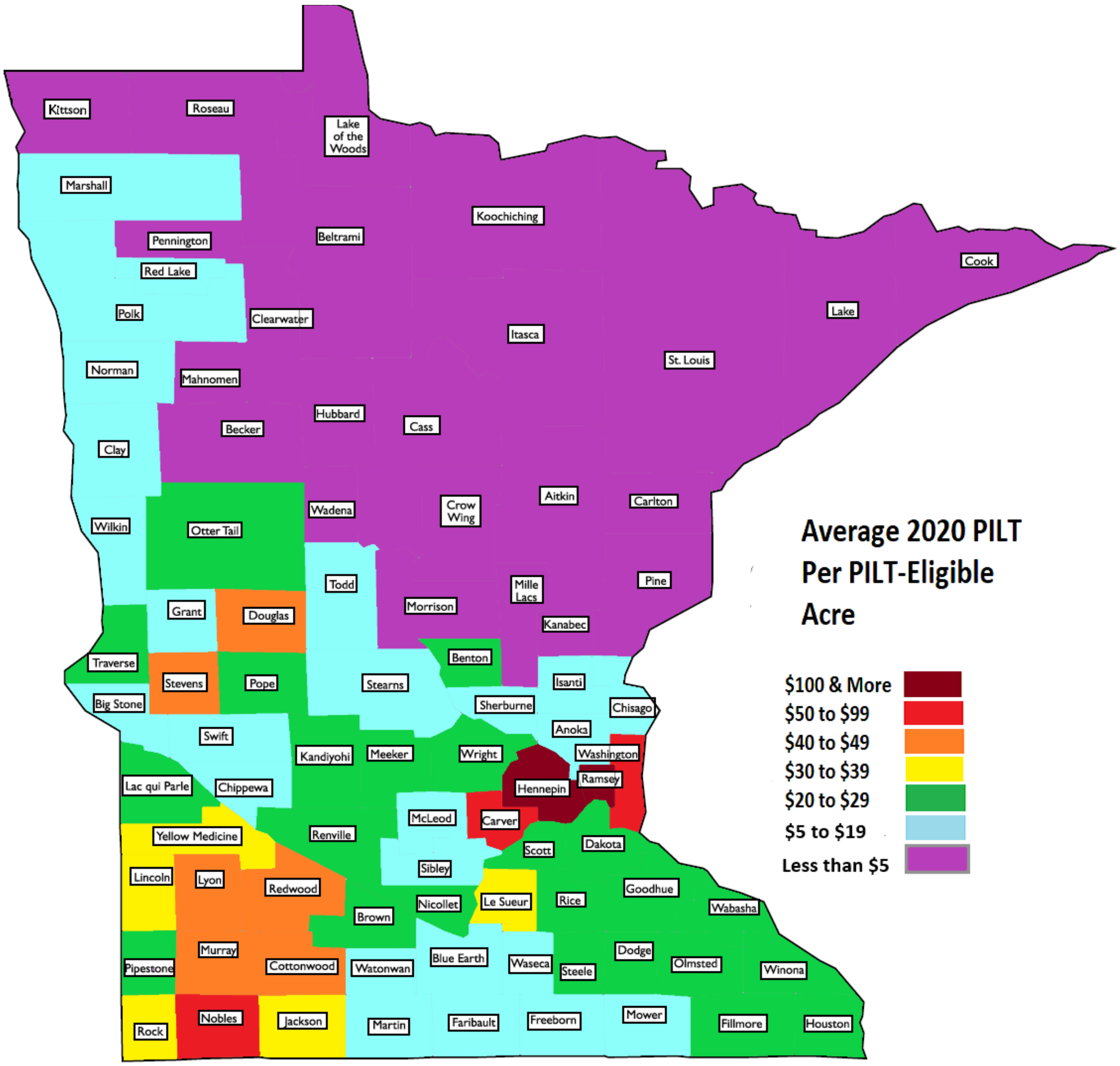
In 1995 the highest county's per acre payment was only 7.9 times the lowest county's per acre payment. With the implementation of the ¾ of 1% of appraised value option for Acquired Natural Resources Land in 1996, the difference increased so the county with the highest per acre level of payment received more than 137 times the per acre payment for the county receiving the lowest level of payment. By 2020, the difference had increased such that the county with a highest per eligible-acre level of payment was receiving more than170 times that of the county receiving the lowest per eligible-acre level of payment.



Although likely unintentional, the combination of:

1. the 1995 legislative change creating the ¾ of 1% of appraised value payment option for Acquired Natural Resources Land,
2. the disparate change among the counties in the valuation of Acquired Natural Resources Land, and
3. the uneven distribution or variation in the concentration of Acquired Natural Resources Land among the counties

resulted in large PILT increases for mostly counties in the southern half of the state and left northern counties where PILT lands are concentrated with PILT payments per acre that had only nominally changed since the program's enactment in 1979.



Per MN Statutes 477A.10, the purpose of PILT is:

(1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land; •

(2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and •

(3) to address the need to manage state lands held in trust for the local taxing districts.

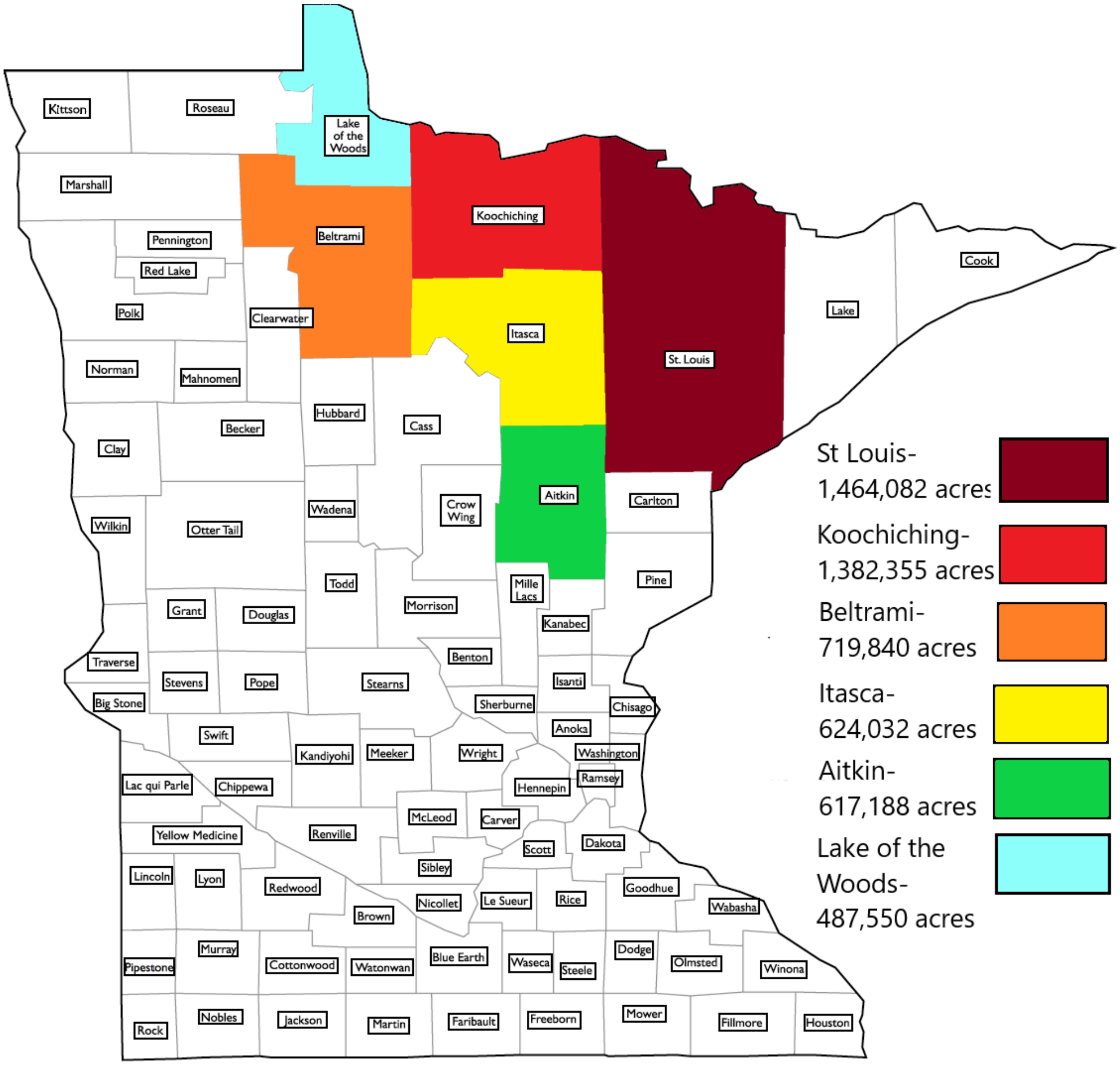
Based on an analysis that compared the net amount of 2020 PILT actually received by the county to the valuation of all PILT land multiplied by the pay 2020 county tax rate, Table 11 on page 20 shows a sampling of counties are coming up short in meeting purpose #1, "***to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land*.**"

Table 11
Property Tax Loss for Selected Counties Due to PILT Land's Tax Exemption

10 Counties with Highest (Shortfall)	(Shortfall) of County Share of PILT Relative to Estimated County Tax on PILT Acreage
St. Louis	($4,610,486)
Itasca	($2,283,012)
Aitkin	($1,695,570)
Cass	($1,359,627)
Carlton	($759,851)
Beltrami	($595,818)
Pine	($592,549)
Cook	($572,267)
Clearwater	($539,984)
Hubbard	($522,791)

It is also questionable whether purpose 2 *"to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land"* is being met. By comparing the map on the next page, **6 Counties Contain 70% of the PILT Acres but Receive Just 40% of Total PILT Payments**, to that on page 18, **1979 to 2021 $ Change per Eligible Acre,** shows the increases in PILT have **not** gone to address the disproportionate impact of state land ownership on counties with a large proportion of state land.

SIX (6) COUNTIES CONTAIN 70% OF PILT LAND YET ONLY RECEIVE 40% OF TOTAL PILT PAYMENTS



The $702,000 change in PILT payments in 1996 as a result of the implementation the ¾ of 1% of appraised value option for Acquired Natural Resources Land was relatively nominal. Only 27 counties out of the 87 counties were affected by this change. By 2020, 77 out of the 87 counties were receiving PILT for Acquired Natural Resources Land and Wildlife Management Land based on the ¾ of 1% of appraised value option.

In 1995 before the change, PILT per acre paid to the highest-compensated county was 8 times that paid to the lowest-paid county. By 2020 it had grown by 170 times. It appears nobody contemplated that the total value of Acquired Natural Resources Land would effectively increase by more than 556% since 1996; nor does it appear anybody anticipated that the benefit of the change would accrue so disparately to the metropolitan counties and agricultural counties and not the northern counties containing most of the PILT land.

How could this be? The reasons are likely two-fold:

1. PILT is funded by an "open and standing appropriation," which is permanent until repealed instead of subject to the usual requirement that the funding has to be re-appropriated by the legislature every two years, and

2. PILT shares a distinction with only a few other state programs where it has an automatic inflator for a major portion of its payments - the ¾ of 1% of appraised value option for Acquired Natural Resources Land and Wildlife Management Land.

In effect, the funding for the program was on "auto-pilot" with no regular legislative review that occurs when a program is funded by direct appropriations in bills subject to multiple hearings in both houses every two years. Generally, review is limited to the Tax Committees' informational hearings on the Department of Management and Budget's General Fund budget forecast and legislative staff's once every two-year overview presentations of all programs under the committees' jurisdictions. The focus of those presentations have always been on the review of the state's property tax system, major property tax relief programs and the state income and sales taxes. PILT receives scant, if any, review.

Previous PILT Studies

At least six prior studies have examined PILT in Minnesota –

Table 12
Past PILT Reports

Year	Report	Entity
1977	Minnesota Public Lands Impact Study, Phase 1, Natural Resource Lands	Barton-Aschman Associates for the Legislative Commission on MN Resources
1989	Payments in Lieu of Taxes: A Report to the Minnesota Legislature	DNR
1994	Payment In Lieu of Taxes Study: Ad Valorem vs. Current Payments on State-Owned Land	DNR
2010	Legislative Auditor's March 2010 Evaluation Report on Natural Resource Land	MN Legislative Auditor
2011	Minnesota Association of County Land Commissioners: A Report on Payment in Lieu of Taxes (PILT)	Minnesota Association of County Land Commissioners
2012	Payment In Lieu of Taxes for State Natural Resources Lands	DNR

A brief discussion of each follows.

Minnesota Public Lands Impact Study, Phase 1, Natural Resource Lands, Barton-Aschman Associates

This 1977 report provided a thorough discussion of the tax status of natural resources land including both state- and federally-owned land, the services provided to those lands and the then current aid or payments provided for those lands. It did a pilot study of these subjects on natural resources lands in Aitkin and Winona counties. The report had an excellent discussion on the "types" or categories of public natural resources land. Among the report's findings with pertinence to the current discussion of PILT are the following:

- It is recommended that both acquired and non-acquired lands be included in any payments systems. ***The evidence suggests that there is very little difference between the two types of land with respect to service demands or potential marketability** (emphasis added)*. The distinction does not reflect current conditions, but rather historical patterns

- When all types of State, federal and tax-forfeited natural resource lands are considered, current direct federal and State payments in lieu of taxes (including direct revenues from tax-forfeited lands) account for less than one-fifth of the potential tax revenues which might be generated from these lands, if the lands were all in private ownership. If only acquired lands are considered, direct State and federal payments account for 21 percent of potential tax revenues in Winona County and 80 percent of potential tax revenues in Aitkin County

Payments in Lieu of Taxes: a Report to the Minnesota Legislature, Department of Natural Resources

This 1989 report examined the several different programs providing payments to local governments at that time for state-owned natural resources land and their effect on local governments finances. One of the findings of the study since largely addressed was that the several programs of payments to local governments for state-owned natural resources land were overly complicated and labor intensive for DNR and county staff. Three of four programs besides PILT have since been repealed. Other noteworthy findings and recommendations include the following:

- Because in-lieu payments are primarily based on fixed per-acre amounts, they poorly reflect land values. As a result, in-lieu payments often do not correspond to taxes on similar privately owned land.

- In some northern counties. in-lieu payments are a major source of funding for local government. Since these revenues are not reflected in local mill rates, they create potential incentives for local spending.

- The Department (*of Natural Resources*) recommends study of the state's policy of supporting natural resource management on county-administered land, which currently is funded by both a portion of in-lieu payments and direct grants appropriated by the legislature for this purpose. The study should have two objectives: (1) determining an appropriate level of support; and (2) examining the possibility of switching support from in-lieu payments to a more uniform and integrated approach to local government aid

Payment In Lieu of Taxes Study: Ad Valorem vs. Current Payments on State-Owned Land, Department of Natural Resources

As the title implies, the 1994 study looked at the then current PILT payments and compared them to what would be raised if the PILT properties were subject to local taxes. Findings included the following:

- Average values were not available from the counties for shoreline property (i.e., lake and river frontage), but assuming a statewide average of $100 per foot of water frontage, the market value of state-owned shoreline is conservatively estimated at $1.70 billion. The combined market value of PILT land and shoreline is estimated at $2.93 billion.

- The market value of DNR land is estimated at $785 million ($147 per acre), plus an additional $1.1 billion for DNR shoreline.

- The market value of county tax-forfeit land is estimated $453 million ($160 per acre), plus an additional $586 million for shoreline.

- Based on the above estimates of market value, and assuming current tax rates, the cost of ad valorem payments for PILT land is estimated at $26.1 million, plus $41.9 million for state-owned shoreline, for a total of $68 million.

- The estimated cost of ad valorem payments for DNR land is $16.4 million, plus $27.6 million for shoreline. The estimated cost for county tax-forfeit land is $9.7 million, plus $14.2 million for shoreline.

- The increased tax capacity due to ad valorem payments on PILT land could result in reduced tax rates in areas with substantial amounts of PILT land. Reduced tax rates could lower the actual cost of ad valorem payments (as well as taxes for other land owners).

- Replacing the current PILT program with an ad valorem payment system would cost $19.6 million per year more than the current annual cost of $6.5 million, a 304 percent increase, not including ad valorem payments for state-owned shoreline. Including payments on shoreline values would increase in-lieu cost by $61.5 million per year, a nearly ten-fold increase. Payment increases would be concentrated in several northern Minnesota counties.

- Estimated ad valorem payments are higher than current in-lieu payments in every county. However, counties are likely to receive a much smaller percentage of ad valorem payments than their 75 percent share of current in-lieu payments. Further study is required to determine whether any counties would actually be allocated less money under an ad valorem system than they receive under the current program, despite the increase

Legislative Auditor's March 2010 Evaluation Report on Natural Resource Land

The 2010 report looked at the Department of Natural Resources' management of natural resources land including:

- issues relating to state ownership of natural resource land,

- the use of conservation easements, and

- payments the state makes to local governments in lieu of property taxes

Some of the findings of the report included:

- 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, and

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

Some of the report's recommendations included:

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

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

[Payment In Lieu of Taxes for State Natural Resources Lands]

The report was required to include an analysis of PILT's current payment and distribution system and any recommended changes to:

1. The purpose of the payment system and the criteria for payments;

2. The rate of payments for specific classes of natural resource lands;

3. The adequacy of current funding for payments and the impact of additional land acquisition on the funding;

4. Alternative methods of reimbursing local units of governments for state natural resource lands; and

5. The formula for distribution of the payments to local units of government.

The findings of the report included:

- The primary driver of increasing PILT costs is not land acquisition, but the dramatic increase in land values for Acquired Natural Resources Land over the last decade.

- There is a wide disparity in compensation rates for different types of land.

- The Acquired Natural Resources Land classification (17% of total state-owned land) receive 73% of the total PILT payment.

- Counties within the Twin Cities metropolitan area receive the highest average per-acre payment.

- Current PILT rates are based on legislative direction and modeled after federal PILT rates.

The report's major recommendations were:

- Amend M.S.477A to include a purpose statement.

- Simplify the rate structure for different land types.

- Clarify, standardize, and streamline the acquired land valuation process.

Other recommendations proposed by the Advisory Group included:

- The legislature should consider restoring annual inflationary adjustments to flat-rate PILT payments.

- The legislature and DNR should enhance existing efforts to inform the public about PILT and the drivers of PILT cost increases.

- The legislature should further develop alternatives to pay for future PILT obligations, including an examination of a "trust fund" approach for new land acquisitions. The recommendations of the Minnesota Department of Education's Education Finance Working Group should be monitored for implications for PILT payments and payment distributions.

DNR also recommended that the legislature should revise the distribution formula to provide townships with at least 10 percent of the actual payment to the county for Acquired Natural Resources Land within the townships' boundaries to be consistent with historic distribution percentages. (This recommendation did not have group consensus.)

Minnesota Association of County Land Commissioners: A Report on Payment in Lieu of Taxes (PILT)

The primary recommendation of the report was for the Department of Revenue to assume administrative oversight of the PILT program and for PILT to reside within the Department of Revenue's budget. The later was put into effect in 2013.

CONCLUSIONS

PILT aid in aggregate has increased substantially since its 1979 enactment – from a gross payment of $5,512,449 in 1980 to $36,355,759 in 2021. But that increase was distributed in a widely disparate manner. Some counties saw their payment per PILT acre go up by 5,000% or more. Twenty-nine other counties, particularly those with a large percentage of the state's PILT natural resources land, saw their payment per PILT acre not even keep up with inflation of 331% between 1979 and 2020[3]. The 29 counties contained nearly 70% of the state's PILT acres. The factors responsible for this were:

1. the 1995 legislative change creating the ¾ of 1% of appraised value payment option for Acquired Natural Resources Land

2. the disparate appreciation in the value of Acquired Natural Resources Land among the counties, and

3. the uneven distribution or variation in the concentration of Acquired Natural Resources Land among the counties.

It is unlikely the legislature intended this result because it is not in keeping with the legislative purposes of PILT of:

> ***(1) to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land;***
> •
> ***(2) to address the disproportionate impact of state land ownership on local units of government with a large proportion of state land; and •***
>
> ***(3) to address the need to manage state lands held in trust for the local taxing districts.[4]***

Rather it is likely the result of a program that was and is on "auto-pilot" with no regular legislative review that occurs when a program is funded by direct appropriations that must be renewed evert two years. PILT has an "open and standing appropriation" that stays in effect permanently unless repealed and a significant category of PILT land – Acquired Natural Resources Land and Wildlife Management Land – has, in effect, an "automatic inflator" - the appreciation of that land. That "inflator" is missing for the other two major categories of PILT lands, DNR- and County-Administered Other Natural Resources Land, that is concentrated in the 29 counties whose payments per PILT acre have not kept up with inflation.

[3]The reference years for inflation are lagged one year so data is available to permit timely adjustment of PILT rates.
[4] MN Statutes 477A.10

Chapter 2

Have PILT Payment Rates Kept Pace with Inflation?

One measure of the adequacy of a program is whether its funding has kept pace with inflation over its life. PILT's total funding met that criterion with a gross payment of $5,512,449 in 1980 growing to $36,355,759 in 2021, a 560% increase, exceeding the 331% increase in the Implicit Price Deflator for State and Local Government[5].

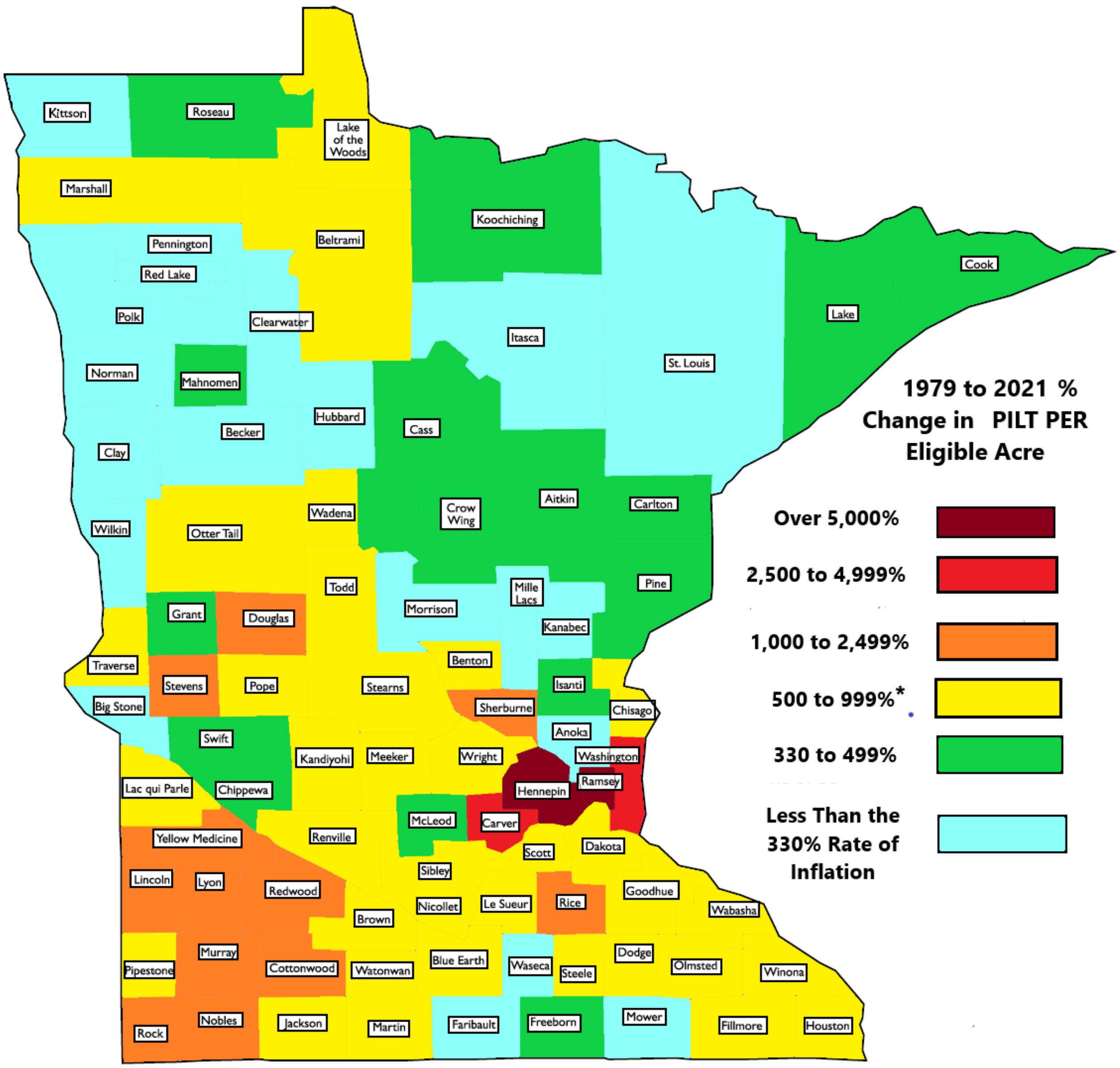
Table 13
Annual Implicit Price Deflator for State and Local Government & PILT Gross Payment 1979/80 & 2020/21[6]

	IPD S&L	Gross PILT Payment'
1979/1980	27.114	$5,512,449
2020/2021	116.812	36,355,759

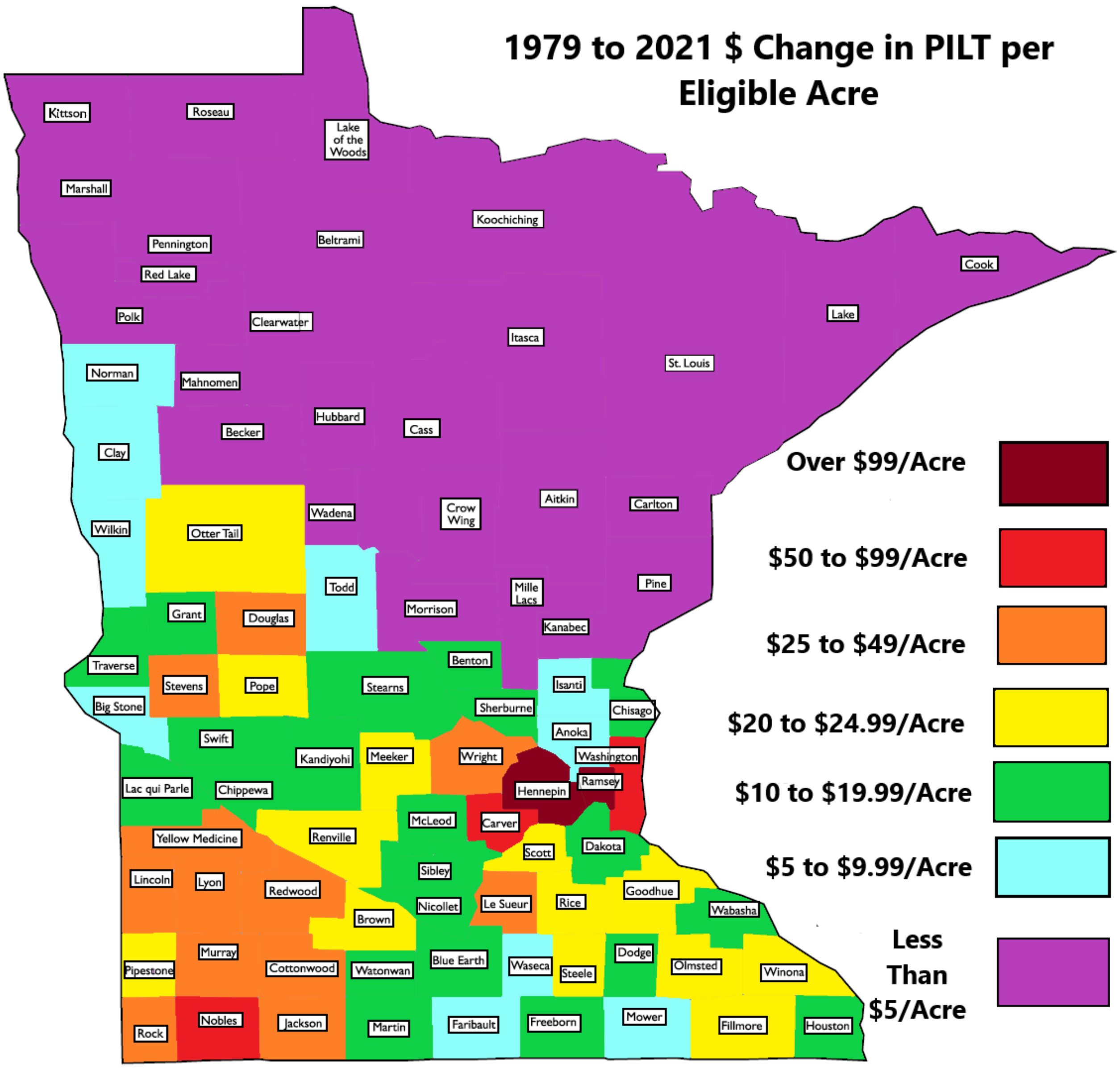
	% Change	
1979/80-2020/21	330.8%	559.5%

But that increase was distributed in a widely disparate manner among the 87 counties. Some counties saw their payment per PILT acre go up by 5,000% or more. Twenty-nine other counties, including some with a large percentage of the state's PILT land, saw their payment per PILT acre not even keep up with inflation of 331% over that 41-year period.

[5] The Implicit Price Deflator for State and Local Government is a measure of inflation that focuses on the goods and services purchased by state and local governments. It is the measure designated by state statute to index the individual income tax brackets and the taconite production tax rate for inflation.
[6] The reference years for inflation are lagged one year so data is available to permit timely adjustment of PILT rates.



The percentage change in PILT payments per eligible acre can be somewhat misleading in that nominal increases in the dollar payment per acre can nevertheless result in large percentage increases. For example, Lake of the Woods County's 1980 to 2021 increase in PILT per eligible acre of 715% was a $3.10 increase, from 38¢ in PILT per eligible acre in 1980 to $3.48 in PILT per eligible acre in 2021. Counties receiving payment increases during the same period of as much as $23.71 per eligible acre nevertheless received lower percentage increases. To provide additional perspective, the following map shows the dollar increases in PILT payments per eligible acre by county from 1979 to 2021.



Three factors have dictated whether an individual county's PILT payments have kept pace with inflation

1. The mix of PILT land categories within the county - Acquired Natural Resources Land and Wildlife Management Land, DNR (Commissioner)-Administered Other Natural Resources Land or County-Administered Other Natural Resources Land;

2. Legislative changes in the payment rates for the various categories of PILT land; and

3. The rate of appreciation in the value of Acquired Natural Resources Land and Wildlife Management Land within the county.

The categories of PILT land within a county dictates the amount of PILT payment per eligible acre that a county receives. If a county contains all Acquired Natural Resources Land and Wildlife Management Land, it qualifies for the highest level of payment – the higher of $5.133 per acre or ¾ of 1% of appraised value. If it contains County- or DNR-Administered Other Natural Resources Land, the county receives a lower PILT payment of $2 per acre.

Table 14
Historic & Current PILT Rates per Acre & Adjustments for Inflation

	1979 Rates as Enacted	2021 Statutory Rate	% Change in Statutory Rate Per Acre	Average Per Acre PILT Based on ¾ of 1% of Appraised Value Option for 77 Counties that Qualify	2021 Constant $ Indexed by the Change in the Implicit Price Deflator
Acquired Natural Resources Land	$3.00	$5.133 or 3/4 or 1% of appraised value, whichever is higher	71.1%	$22.17	$12.92
County-Administered Other Natural Resources Land	$0.75	$2.00	166.7%	NA	$3.23
DNR-Administered Other Natural Resources Land	$0.375	$2.00	433.3%	NA	$1.62

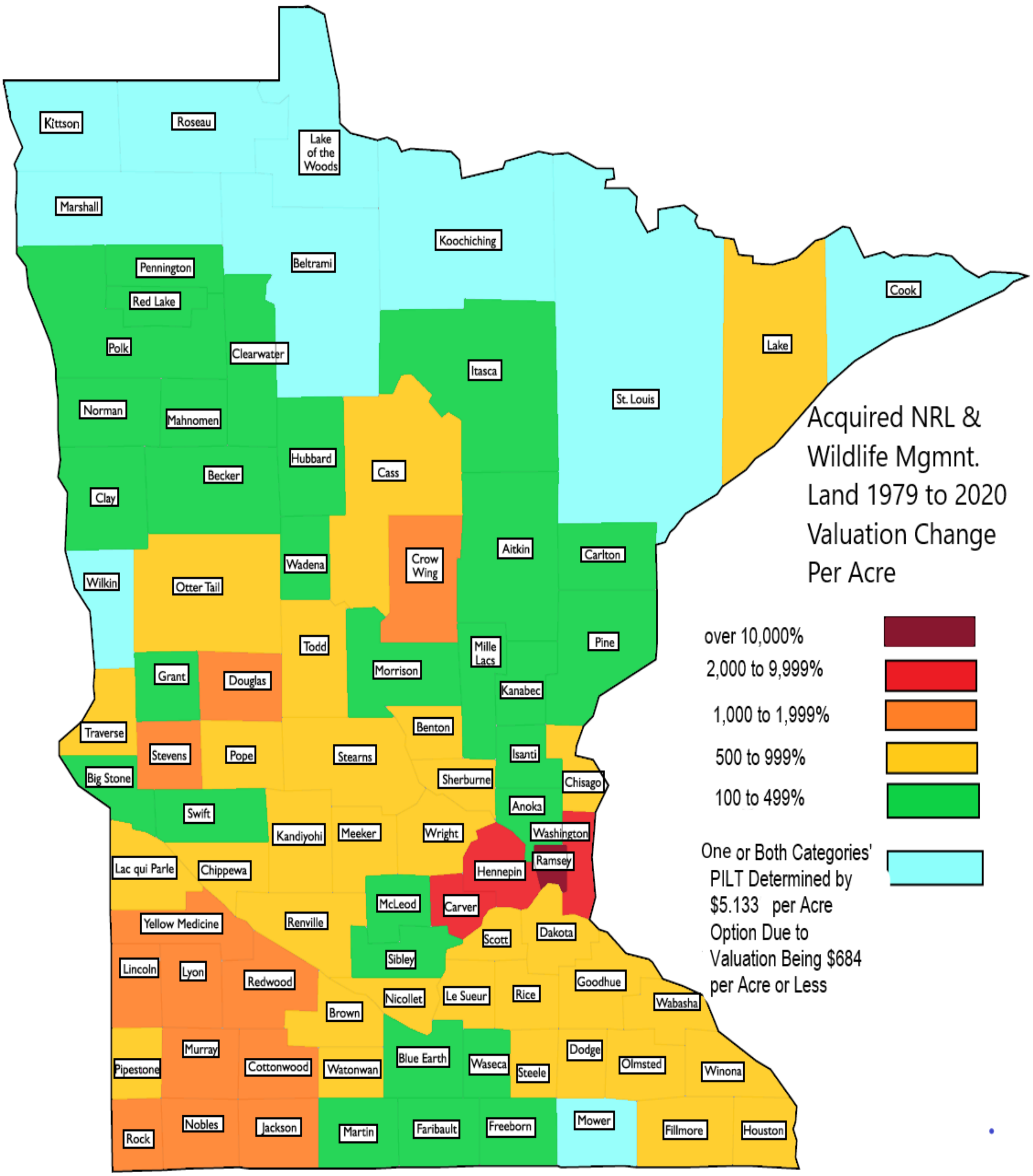
The per acre payment rates for all categories of PILT land have been increased by the Legislature since the program's inception in 1979. However, only the increase in the per acre payment rate for DNR-Administered Other Natural Resources Land exceeded the rate of inflation, increasing from a very low payment rate of 37.5¢ per acre to $2 per acre.

The only other PILT land whose increase in the payment rate exceeded the rate of inflation would be those Acquired Natural Resources Lands and Wildlife Management Lands receiving payment based on the ¾ of 1% of appraised value option where the land's appraised value increased faster than the 331% rate of inflation.

Table 15 Acquired Natural Resources Land (NRL) Has Seen the Largest Increase in PILT				
PILT Category	**1980**	**2021**	**$ Change**	**% Change**
Acquired NRL (includes Wildlife Management Land)	$1,653,972	**$21,233,219**	**$19,579,247**	**1083.8%**
County-Administered Other NRL	$2,099,394	$5,569,943	$3,470,549	65.3%
DNR-Administered Other NRL	$1,759,083	$8,191,521	$6,432,438	265.7%

To be clear, the Acquired Natural Resources Land and Wildlife Management Land of ten counties' primarily in northern Minnesota was not valuable enough to qualify for the ¾ of 1% of appraised value PILT payment option as shown on the map below. Thus, the only increase they received was the per acre payment rate change from $3 to $5.133 per acre, not keeping pace with the rate of inflation.

Another 19 counties' Acquired Natural Resources Land and Wildlife Management Land qualified for the ¾ of 1% of appraised value PILT payment option but either the appreciation of their appraised value did not keep pace with inflation and/or the other categories of PILT land within the county whose per acre payment rate has not kept pace with the rate of inflation was such a large proportion of its total PILT acreage that it more than offset the increased PILT payments for the Acquired Natural Resources Land and Wildlife Management Land.


Acquired NRL & Wildlife Mgmnt. Land 1979 to 2020 Valuation Change Per Acre
over 10,000%
2,000 to 9,999%
1,000 to 1,999%
500 to 999%
100 to 499%
One or Both Categories' PILT Determined by $5.133 per Acre Option Due to Valuation Being $684 per Acre or Less
Kittson
Roseau
Lake of the Woods
Marshall
Koochiching
Beltrami
Pennington
Red Lake
Cook
Lake
Polk
Clearwater
Itasca
St. Louis
Norman
Mahnomen
Hubbard
Cass
Becker
Clay
Aitkin
Carlton
Wadena
Crow Wing
Wilkin
Otter Tail
Todd
Mille Lacs
Pine
Morrison
Grant
Douglas
Kanabec
Benton
Traverse
Stevens
Pope
Stearns
Isanti
Sherburne
Chisago
Big Stone
Swift
Anoka
Kandiyohi
Meeker
Wright
Washington
Lac qui Parle
Chippewa
Ramsey
Hennepin
McLeod
Carver
Yellow Medicine
Renville
Scott
Dakota
Sibley
Lincoln
Lyon
Redwood
Goodhue
Nicollet
Le Sueur
Rice
Wabasha
Brown
Murray
Dodge
Pipestone
Cottonwood
Watonwan
Blue Earth
Waseca
Steele
Olmsted
Winona
Mower
Rock
Nobles
Jackson
Martin
Faribault
Freeborn
Fillmore
Houston

CONCLUSIONS

PILT's total funding has kept pace with the 331% rate of inflation from 1980 to 2021. The gross payment of $5,512,449 in 1980 grew to $36,355,759 in 2021, a 560% increase. However, that increase was distributed in a widely disparate manner among the 87 counties. Some counties saw their payment per PILT acre go up by 5,000% or more. Twenty-nine other counties, including some with a large percentage of the state's PILT land, saw their payment per PILT acre not keep up with inflation of 331% over that 41-year period.

The primary factor dictating whether a county's PILT payments kept up with inflation was what proportion of the county's PILT lands consisted of Acquired Natural Resources Land and Wildlife Management Land and the rate of appreciation in the value of those lands. If Acquired Natural Resources Land and Wildlife Management Land was a large proportion of a county's PILT land and if that land appreciated faster than the rate of inflation then the county's PILT payments per eligible acre kept up with inflation. If not, a county's PILT payments per eligible acre did not keep up with the rate of inflation.

The disparate treatment of counties based on the category of PILT land within its boundaries and its rate of appreciation is an equity issue that warrants legislative attention. As the Barton-Aschman Associates study, Minnesota Public Lands Impact Study, Phase 1, Natural Resource Lands noted about the distinction between acquired and non-acquired land "***The evidence suggests that there is very little difference between the two types of land with respect to service demands or potential marketability*** *(emphasis added)*.

The distinction does not reflect current conditions, but rather historical patterns." The DNR effectively acknowledged that itself in 2000/2001 when significant amounts of previously DNR-Administered Other Natural Resources Land that was Consolidated Conservation Land that had tax forfeited in the 1930's was reclassified as Acquired Natural Resources Land despite not having been acquired by purchase, gift or condemnation.

Chapter 3

Property Tax Impacts of PILT

Compensating "local units of government for the loss of tax base from state ownership of land and the need to provide services for state land[7]" is one of the statutory purposes of PILT. Whether PILT achieves the goal of compensating counties for the loss of tax base is the subject of an analysis discussed later in this chapter. Before that discussion we will review the measures of tax base loss by county due to the tax exemption of PILT land and county reliance on PILT.

There is huge variation by county in the amount of tax base loss due to PILT land's tax exemption, both in terms of its area or acreage as a portion of the county's total area and its market value. The map on the next page shows the portion of a county's area consisting of tax exempt, PILT land.

[7] MS 477A.10, clause (2)

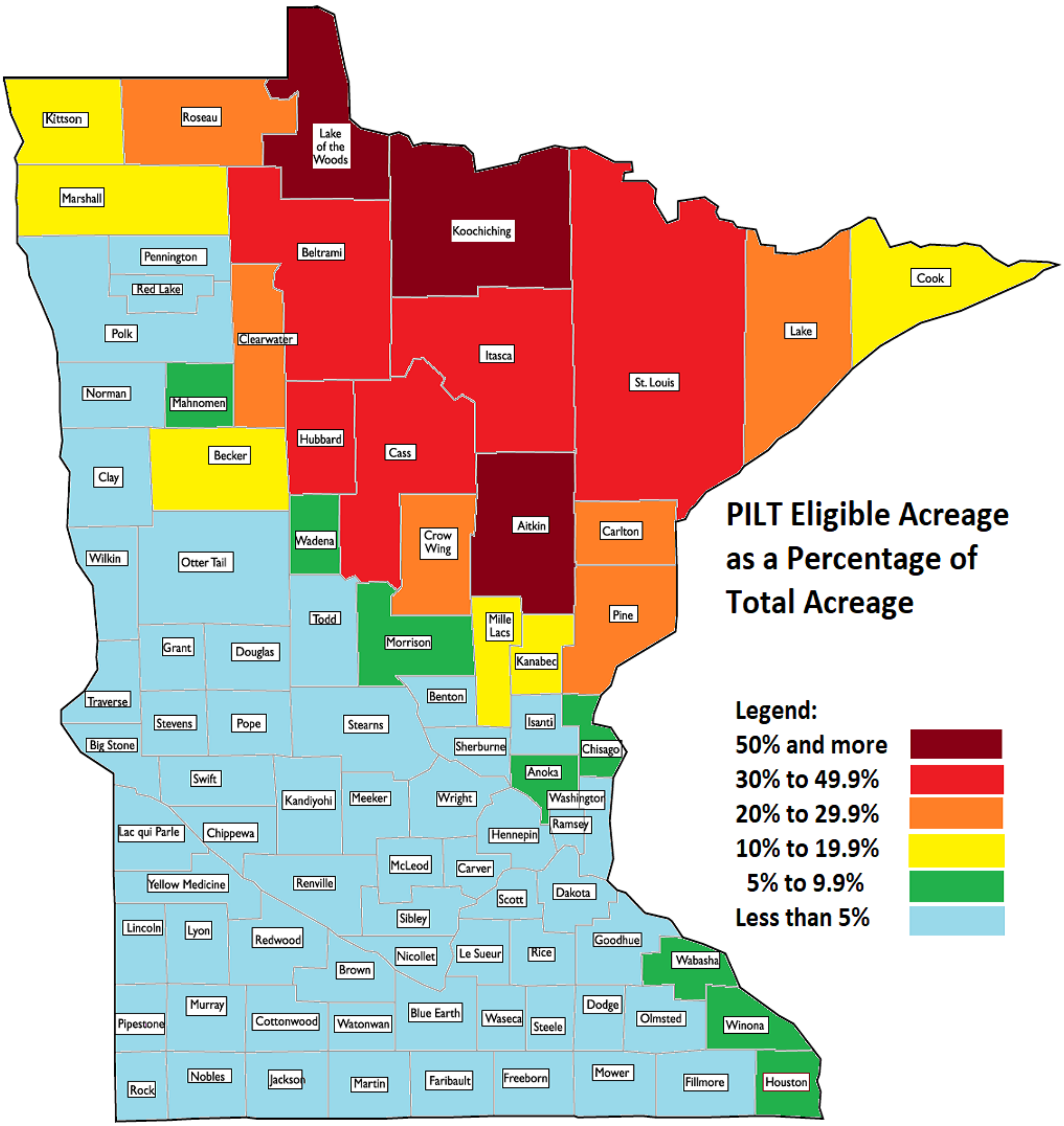
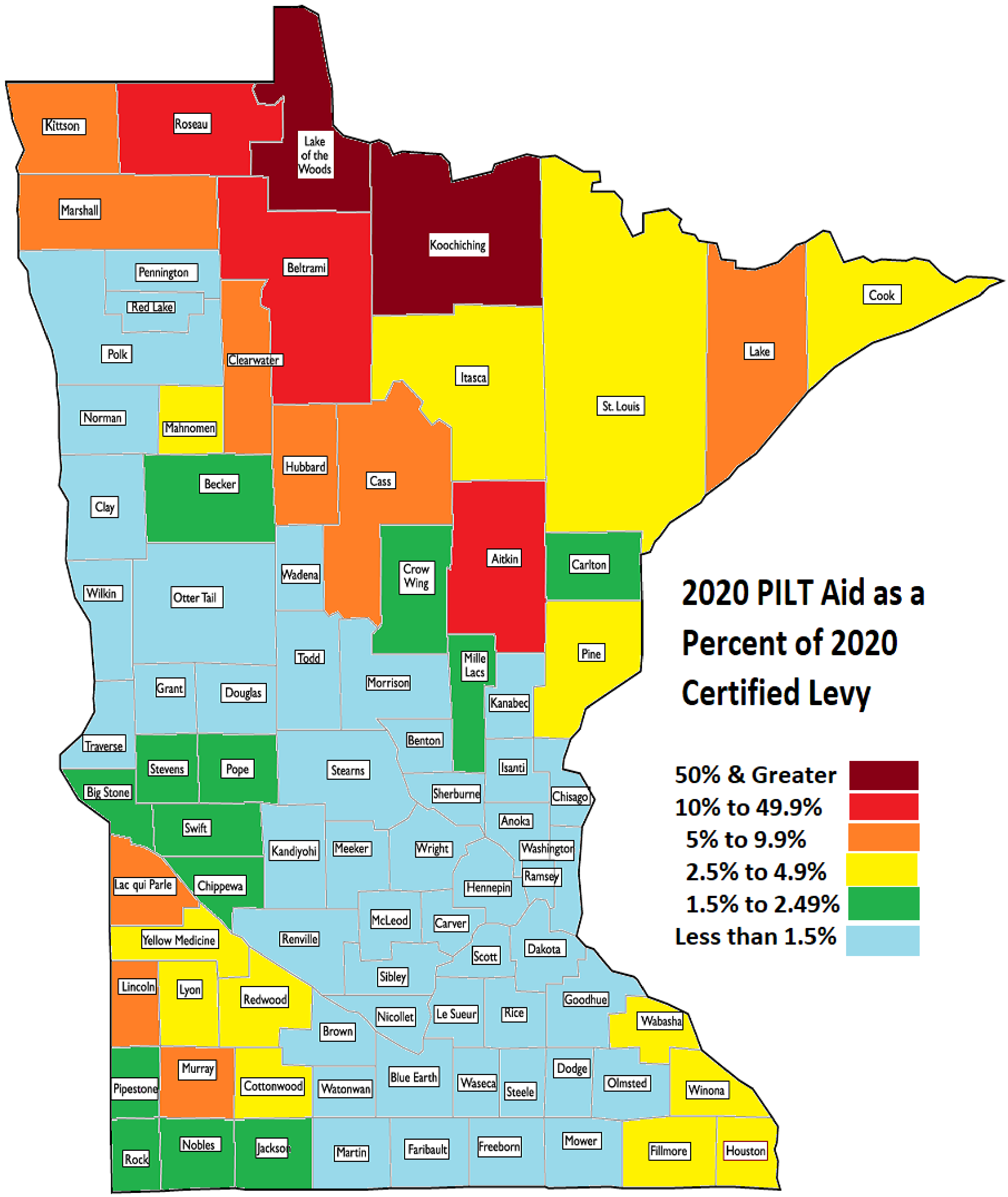

PILT Eligible Acreage as a Percentage of Total Acreage
Legend:
50% and more
30% to 49.9%
20% to 29.9%
10% to 19.9%
5% to 9.9%
Less than 5%
Kittson
Roseau
Lake of the Woods
Marshall
Koochiching
Beltrami
Pennington
Red Lake
Polk
Clearwater
Itasca
St. Louis
Lake
Cook
Norman
Mahnomen
Hubbard
Cass
Becker
Clay
Wadena
Crow Wing
Aitkin
Carlton
Wilkin
Otter Tail
Todd
Mille Lacs
Pine
Grant
Douglas
Morrison
Kanabec
Traverse
Benton
Stevens
Pope
Stearns
Isanti
Big Stone
Sherburne
Chisago
Swift
Anoka
Kandiyohi
Meeker
Wright
Washington
Lac qui Parle
Chippewa
Hennepin
Ramsey
McLeod
Carver
Yellow Medicine
Renville
Scott
Dakota
Sibley
Lincoln
Lyon
Redwood
Goodhue
Nicollet
Le Sueur
Rice
Wabasha
Brown
Murray
Dodge
Olmsted
Pipestone
Cottonwood
Watonwan
Blue Earth
Waseca
Steele
Winona
Nobles
Jackson
Martin
Faribault
Freeborn
Mower
Fillmore
Houston
Rock

Table 16 on the next two pages shows the loss in tax base due to the tax exemption of PILT land.

Table 16 Exempt PILT Land Value as a Percentage of Total Taxable Market Value					
County	Exempt PILT Land Value	Exempt PILT Land Value as a % of Total Taxable Market Value	County	Exempt PILT Land Value	Exempt PILT Land Value as a % of Total Taxable Market Value
Aitkin	629,959,900	20.76%	Marshall	104,410,200	4.24%
Anoka	25,185,500	0.07%	Martin	6,763,300	0.16%
Becker	186,601,800	3.13%	Meeker	14,461,800	0.44%
Beltrami	458,310,400	13.03%	Mille Lacs	94,118,500	4.24%
Benton	6,846,700	0.21%	Morrison	22,404,900	0.60%
Big Stone	22,929,600	1.57%	Mower	538,400	0.01%
Blue Earth	12,126,000	0.14%	Murray	72,516,200	2.25%
Brown	18,061,000	0.48%	Nicollet	11,824,500	0.27%
Carlton	137,147,500	4.72%	Nobles	31,429,200	0.71%
Carver	14,187,300	0.09%	Norman	8,715,700	0.48%
Cass	812,088,300	11.55%	Olmsted	24,932,800	0.13%
Chippewa	34,778,800	1.27%	Otter Tail	82,679,900	0.81%
Chisago	42,772,600	0.73%	Pennington	5,950,000	0.40%
Clay	10,430,000	0.16%	Pine	196,248,600	6.72%
Clearwater	164,956,400	15.49%	Pipestone	15,096,000	0.69%
Cook	153,444,700	9.31%	Polk	25,381,200	0.46%
Cottonwood	58,003,500	1.78%	Pope	23,699,800	1.01%
Crow Wing	312,050,100	2.83%	Ramsey	12,141,900	0.02%
Dakota	16,475,100	0.03%	Red Lake	3,254,800	0.49%
Dodge	3,426,300	0.10%	Redwood	55,494,000	1.34%
Douglas	54,376,100	0.93%	Renville	8,516,900	0.19%
Faribault	5,377,800	0.15%	Rice	2,822,900	0.04%
Fillmore	58,326,900	1.42%	Rock	9,608,800	0.32%
Freeborn	7,654,500	0.19%	Roseau	154,694,700	10.87%
Goodhue	37,006,200	0.50%	St. Louis	1,177,887,900	6.66%
Grant	6,674,600	0.36%	Scott	21,222,400	0.11%
Hennepin	18,929,000	0.01%	Sherburne	2,888,100	0.03%
Houston	56,897,200	2.52%	Sibley	3,197,800	0.10%
Hubbard	336,183,000	9.33%	Stearns	41,196,200	0.27%

Table 16 Exempt PILT Land Value as a Percentage of Total Taxable Market Value					
County	Exempt PILT Land Value	Exempt PILT Land Value as a % of Total Taxable Market Value	County	Exempt PILT Land Value	Exempt PILT Land Value as a % of Total Taxable Market Value
Isanti	13,057,000	0.36%	Steele	6,957,300	0.17%
Itasca	605,200,300	11.19%	Stevens	20,975,300	0.90%
Jackson	28,790,900	0.87%	Swift	21,759,100	0.80%
Kanabec	35,411,500	2.58%	Todd	17,746,500	0.66%
Kandiyohi	23,041,000	0.40%	Traverse	2,764,900	0.14%
Kittson	45,310,200	3.32%	Wabasha	53,258,700	1.62%
Koochiching	17,585,300	1.65%	Wadena	30,493,100	2.66%
Lac Qui Parle	94,958,400	4.11%	Waseca	2,487,100	0.09%
Lake	111,079,400	6.12%	Washington	74,630,900	0.21%
Lake of the Woods	207,644,200	32.39%	Watonwan	4,303,000	0.20%
Le Sueur	20,425,100	0.48%	Wilkin	9,970,400	0.47%
Lincoln	42,116,600	2.24%	Winona	109,093,100	2.17%
Lyon	67,245,600	1.68%	Wright	32,528,600	0.20%
McLeod	6,870,800	0.17%	Yellow Medicine	39,204,900	1.39%
Mahnomen	44,512,200	5.90%			

Obviously, the degree of a county's reliance on PILT is directly related to the loss in tax base from the tax exemption of PILT land. The map on the following page shows what percentage a county's PILT payments are of its property tax levy, a county's main revenue source.


2020 PILT Aid as a Percent of 2020 Certified Levy
50% & Greater
10% to 49.9%
5% to 9.9%
2.5% to 4.9%
1.5% to 2.49%
Less than 1.5%
Kittson
Roseau
Lake of the Woods
Marshall
Koochiching
Pennington
Beltrami
Red Lake
Cook
Polk
Clearwater
Lake
Itasca
St. Louis
Norman
Mahnomen
Hubbard
Cass
Becker
Clay
Aitkin
Carlton
Crow Wing
Wadena
Wilkin
Otter Tail
Pine
Todd
Mille Lacs
Morrison
Grant
Douglas
Kanabec
Traverse
Benton
Stevens
Pope
Stearns
Isanti
Big Stone
Sherburne
Chisago
Anoka
Swift
Kandiyohi
Meeker
Wright
Washington
Lac qui Parle
Chippewa
Ramsey
Hennepin
McLeod
Carver
Yellow Medicine
Renville
Scott
Dakota
Sibley
Lincoln
Lyon
Goodhue
Redwood
Nicollet
Le Sueur
Rice
Wabasha
Brown
Murray
Dodge
Blue Earth
Pipestone
Cottonwood
Watonwan
Waseca
Steele
Olmsted
Winona
Mower
Nobles
Rock
Jackson
Martin
Faribault
Freeborn
Fillmore
Houston

PILT not surprisingly equals a large percentage of county property tax levies in northern counties where PILT lands are concentrated and make up a large portion of the counties' total acreage and/or equals a large percentage of the counties' taxable market value. However, one would not expect that PILT would equal 5 to nearly 10% of three southwestern counties' property tax levies given the small acreage of PILT lands within their boundaries. The high valuation of land in the three counties and the ¾ of 1% of appraised value option for PILT payments on Acquired Natural Resources Land and Wildlife Management Land combine to give those counties' high PILT payments that equal an unusually large portion of the counties' levies given the small amount of PILT land within their boundaries.

Not only do counties lose tax base due to PILT lands' tax exemption. They also forego the "opportunity" of increased tax base from development on particularly lakeshore within PILT land. PILT lands can never be developed and counties forego the tax revenue from the development that would otherwise occur in the future.

St. Louis County provided information for this report on the value of that "development." Within the county, existing taxable development -the additional value from improvements - on improved seasonal residential recreational land with lakeshore frontage equals $288 per front foot of lakeshore. Cabins and other improvements add over $800 million of market value on top of or in addition to the $1.048 billion market value of raw land for improved seasonal residential recreational property with lakeshore frontage in St. Louis County. Over 12.5 million of lakeshore frontage is captured or locked up in exempt properties that would be primarily federal-government-owned land and state-owned, PILT land within St. Louis County.

The lost "opportunity" for development on other lakes within other counties' PILT land and lost tax base would be similar to St. Louis County's at $288 per front foot of lakeshore. Thus, for example if the developable lakeshore frontage within PILT land in a county equal even just 1,000 feet, the tax base loss from future development would equal approximately $288,000.

Detailed Analysis of Property Tax Impact of the Tax Exemption of PILT

Several reports or studies have analyzed the property tax impact of PILT on local governments particularly counties in the past. Their conclusions varied. The DNR's 1989 report, Payments in Lieu of Taxes: a Report to the Minnesota Legislature found that because in-lieu payments are primarily based on fixed per-acre amounts, they poorly reflect land values. As a result, in-lieu payments often do not correspond to taxes on similar privately owned land. The DNR's 1994 report, Payment In Lieu of Taxes Study: Ad Valorem vs. Current Payments on State-Owned Land made the following findings:

1. Based on the above estimates of market value, and assuming current tax rates, the cost of ad valorem payments for PILT land is estimated at $26.1 million, plus $41.9 million for state-owned shoreline, for a total of $68 million.

2. The estimated cost of ad valorem payments for DNR land is $16.4 million, plus $27.6 million for shoreline. The estimated cost for county tax-forfeit land is $9.7 million, plus $14.2 million for shoreline.

3. Replacing the current PILT program with an ad valorem payment system [in 1989] would cost $19.6 million per year more than the current annual cost of $6.5 million, a 304 percent increase, not including ad valorem payments for state-owned shoreline. Including payments on shoreline values would increase in-lieu cost by $61.5 million per year, a nearly ten-fold increase.

Reaching a contrary conclusion, the 2010 Legislative Auditor Evaluation Report – Natural Resource Land determined that PILT is generally more than adequate in replacing the property taxes lost by counties when DNR acquires nonhunting land. It should be noted that

1. Part of the analysis consisted of a comparison of the tax rate equivalent of the Acquired Natural Resources Land PILT payment based on the ¾ of 1% of appraised value option to a combined county township tax rate by county. The analysis ignored the fact that for 11 northern counties in 2020 the Acquired Natural Resources Land payment was less than 50% of the total PILT payments to those counties. For Koochiching County, it was less than 4% of its total PILT payments in 2020. Thus, since that part of the analysis failed to consider the much lower tax rate equivalents of PILT payments on DNR- and County-Administered Other Natural Resources Land that constituted the majority of the PILT payment to those counties, it did not capture the likely inadequacy of PILT payments relative to what the property tax revenue from PILT lands would be in those counties, and

2. Another part of the analysis compared what the Acquired Natural Resources Land PILT payment would be for a hypothetical $100,000 parcel of rural land to what the combined county township tax on that parcel would be after adjusting the value for the computation of the combined county township tax **only** by the assessment sales ratio, a measure of the accuracy of a local assessor's appraisal. This ignores the fact that after initial purchase the local assessor appraises PILT property for the calculation of its PILT payment in exactly the same manner as he or she does for taxable property. Thus, the failure to also adjust the PILT land's value by the assessment sales ratio for computation of its hypothetical PILT results in an overstatement of the PILT that would be payable. At least the report acknowledged that the analysis was not appropriate for primarily norther counties which received PILT for Acquired Natural Resources Land based on the lower, per acre payment rate rather than the ¾ of 1% of appraised value option used for purposes of the analysis.

This report's analysis of whether PILT payments equal, exceed or underpay relative to what the county property taxes would be on the tax-exempt, PILT land is based on the following parameters:

1. The actual PILT payments and valuations were used for the analysis. The later was from the County Exempt and PILT Property Report. That is the data that is used for computing PILT under the ¾ of 1% of appraised value option for Acquired Natural Resources Land and Wildlife Management Land. An adjustment was made for acquisitions since the County Exempt and PILT Property Report was prepared,

2. Average county, township and school district tax rates for each county were derived from the Abstract of Tax Lists prepared by the Department of Revenue from data submitted by the county auditors,

3. Each county's gross PILT payment was allocated between the county, township and school district using the tax rates derived in #2 per the requirements of MS 477A.14. The allocations vary according to the category of PILT land for which the payment was made. After that allocation, a net county PILT payment was derived, and

4. Using the values identified in #1, the county tax rates identified in #2 and a class rate of 1% applicable to non-homestead agricultural land or rural vacant land, the county tax on tax-exempt, PILT land was computed and compared to the net county PILT payment in #3.

Table 17 below shows a number of counties are coming up short in meeting purpose #1, "*to compensate local units of government for the loss of tax base from state ownership of land and the need to provide services for state land*."

Table 17 Shortfall of 2020 PILT Relative to Estimated County Tax on PILT Land			
County	**(Shortfall) of County Share of PILT Relative to Estimated County Tax on PILT Acreage**	**County**	**(Shortfall) of County Share of PILT Relative to Estimated County Tax on PILT Acreage**
St. Louis	($4,610,486)	Chippewa	($44,023)
Itasca	($2,283,012)	Isanti	($43,732)
Aitkin	($1,695,570)	Houston	($40,352)
Cass	($1,359,627)	Pennington	($22,509)
Carlton	($759,851)	Big Stone	($17,957)
Beltrami	($595,818)	Todd	($15,851)
Pine	($592,549)	Anoka	($11,976)
Cook	($572,267)	Steele	($11,901)
Clearwater	($539,984)	Benton	($11,878)
Hubbard	($522,791)	Nicollet	($10,896)
Mille Lacs	($513,090)	McLeod	($10,862)
Crow Wing	($493,444)	Polk	($10,461)
Becker	($254,679)	Le Sueur	($8,842)
Kanabec	($220,300)	Clay	($7,119)
Mahnomen	($198,492)	Waseca	($6,608)
Winona	($173,283)	Freeborn	($5,895)
Roseau	($152,220)	Red Lake	($2,869)
Wadena	($144,344)	Douglas	($2,389)
Stearns	($99,941)	Watonwan	($1,755)
Lac Qui Parle	($72,369)	Sibley	($1,431)
Olmsted	($56,450)	Mower	($1,101)
Chisago	($50,249)	Dodge	($348)

What Factors Affected Whether a County's PILT Payment Was Greater or Less Than the Estimated Property Tax on the PILT Land.

An obvious factor was the level or amount of PILT payment for the PILT land. Low PILT payments as with the DNR- and County-Administered Other Natural Resources Land at $2 per acre would logically be associated with PILT payments being less than the estimated property tax on the PILT land whereas high PILT payments as with Acquired Natural Resource Land and Wildlife Management Land with a minimum payment of $5.133 per acre and as high as $349 per acre under the ¾ of 1% of appraised value option would be associated with a PILT payments exceeding estimated property tax on the PILT land.

A comparison of the PILT payment per acre and the portion of the payment coming from the Acquired Natural Resources Land and Wildlife Management Land confirms this for counties where the estimated property lax on PILT land shows of the 10 counties suffering the greatest shortfall in PILT relative to the estimated county property tax on the PILT land, 9 of the 10 receive among the lowest percentage of their PILT from Acquired Natural Resources Land and Wildlife Management Land and have the among the lowest per acre payment rate. Beltrami County which receives a higher percentage of its PILT from Acquired Natural Resources Land and Wildlife Management Land nevertheless receives low PILT payment per acre because of the low value of Acquired Natural Resources Land and Wildlife Management Land within the county, limiting its payment for those lands. Its average payment for all PILT acres is $3.67 per acre.

CONCLUSIONS

As shown by the map on page 36, PILT acreage is concentrated in northern Minnesota. Similarly, tax-exempt-PILT land value is equivalent to a large portion of the tax base of a number of northern counties as shown on **Table 16** on pages 37 and 38. It should not be surprising then that PILT equals a high proportion of a number of northern counties' property tax levies as shown on the map, **2020 PILT Aid as a Percent of 2020 Certified Levy**, on page 39. PILT also equals 5 to nearly 10% of three southwestern counties' property tax levies, which seems surprising given the small acreage of PILT lands within their boundaries. The reason why is the high valuation of land in those counties and the ¾ of 1% of appraised value option for PILT payments on Acquired Natural Resources and Wildlife Management Land that predominate in the three counties.

Not only do counties lose tax base due to PILT lands' tax exemption. They also forego the "opportunity" of increased tax base from development on particularly lakeshore within PILT land. It can never be developed and counties forego the tax revenue from the development that would otherwise occur in the future. If developable lakeshore frontage within PILT land in a county equals even just 1,000 feet, the tax base loss from future development would equal approximately $288,000.

This report includes an analysis of whether PILT payments are meeting one of their statutory objectives of compensating counties "for the loss of tax base from state ownership of land and the need to provide services for state land." The results are presented on page 43 of this report.

The 15 largest losers, for which PILT is less than what estimated county property taxes would be on tax-exempt, PILT lands, are all northern counties. An obvious factor was the level or amount PILT payment for the PILT land. The low PILT payment rate of $2 per acre for the DNR- and County-Administered Other Natural Resources Land concentrated in northern Minnesota generally resulted in PILT payments being less than the estimated property tax on the PILT lands in those counties. High PILT payments for Acquired Natural Resource Land and Wildlife Management Land with a minimum payment of $5.133 per acre and as high as $349 per acre under the ¾ of 1% of appraised value option was associated with mostly southern Minnesota counties where PILT payments exceeded estimated property taxes on those counties PILT land.

Chapter 4

PILT and Conservation Easements

"Conservation easements" are a relatively new means of acquiring management rights for environmental or conservation purposes over privately-owned land. Generally, the owner gives up some uses of the land, e.g., residential development or tillage of row crops, for a price paid by the easement purchaser in order to preserve or enhance the land's use for environmental or conservation purposes. Favorable treatment under state and federal income tax laws through enhanced charitable deductions and state property tax laws through taxable valuation reductions have added incentives for private land owners to enter into conservation easement agreements[8].

State-funded acquisition of conservation easements have been the object of efforts to protect more land for conservation or environmental purposes without incurring the higher costs of acquiring the land in fee title for a number of years. Over a dozen different types of conservation easements are authorized under current state law as shown on Exhibit 1.3 from the 2013 Legislative Auditor's Conservation Easement report on page 47. Between 2001 and 2011 efforts to acquire conservation easements accelerated with the number of state-funded conservation easements more than doubling to 6,600. State-funded conservation easements are administered primarily by four easement holders: Board of Water and Soil Resources (BWSR), Department of Natural Resources (DNR), Ducks Unlimited (DU), and Minnesota Land Trust (MLT). Among these four easement holders, BWSR received more than 58 percent of the state conservation easement funds from 2001 to 2011; DNR received 40 percent.

[8] Generally limited to conservation easements entered into before May 23, 2013 except for easements for riparian buffers for water quality or quantity control or easements in a county that has adopted, by referendum, a program to protect farmland and natural areas since 1999.

Exhibit 1.3: Types, Holders, and Numbers of State-Funded Conservation Easements in Minnesota, 2011

Type	Easement Holder(s)	Number	Purpose
Aquatic Management Area	DNR	13	To protect land critical for fish and other aquatic life.
Army Compatible Use Buffer (ACUB)	BWSR, DNR	75	To limit development or use of the property or preserve habitat on the property in a three-mile zone around Camp Ripley.
Conservation Reserve Enhancement Program (CREP)	BWSR	2,735	To restore marginal agricultural land using a combination of payments from the federal Conservation Reserve Program and the state Reinvest in Minnesota (RIM) Reserve program.
Forestry	DNR	37	To protect private forest lands for a variety of purposes, including timber, scenic, recreational, and habitat.
Metro Greenways	DNR	16	To protect natural areas in the Twin Cities metropolitan area.
Native Prairie Bank	DNR	103	To protect native prairie lands that have never been plowed.
Northern Pike Spawning	DNR	10	To protect northern pike spawning habitats.
Reinvest in Minnesota (RIM) Reserve[a]	BWSR	2,474	To restore certain marginal agricultural land and protect environmentally sensitive areas.
Scientific and Natural Area	DNR	17	To protect in an undisturbed state natural features with exceptional scientific or educational value.
Shallow Lake	DU	9	To protect wetlands and waterfowl habitat around shallow lakes.
Trout Stream	DNR	583	To provide angler access, improve trout habitat, and restrict nearby land use.
Water Bank	DNR	21	To preserve wetlands.
Wild and Scenic River	DNR	133	To protect the scenic, recreational, or natural characteristics along the state rivers designated as Wild and Scenic rivers.
Wildlife	DNR	18	To protect wildlife habitat.
Other[b]	DNR, MLT, BWSR	443	To preserve and protect unique natural features, such as caves, bat hibernaculum, wetlands, or land adjacent to or near other protected areas and shorelines.

NOTES: Easement holders and numbers are as of December 31, 2011, for the four primary easement holders of state-funded conservation easements in Minnesota: Board of Water and Soil Resources (BWSR), Department of Natural Resources (DNR), Ducks Unlimited (DU), and Minnesota Land Trust (MLT). Because MLT does not classify its conservation easements by type, we have classified all of its 120 state-funded conservation easements as "Other."

[a] "RIM Reserve" includes a number of easement types, such as Marginal Cropland and Riparian Buffer Strip easements.

[b] "Other" includes several different types of conservation easements, such as Cave, Park, and Perpetual Wetland Preserve easements.

SOURCES: Office of the Legislative Auditor, analysis of data provided by the Board of Water and Soil Resources, Department of Natural Resources, Ducks Unlimited, and Minnesota Land Trust; *Minnesota Statutes* 2012, 84.0277, 84.66, 84.96, 86A.05, 97C.02, 103F.311, 103F.505, and 103F.601; Minnesota Department of Natural Resources, *Conservation Easement Stewardship and Enforcement Program Plan* (St. Paul, February 28, 2011); and Minnesota Land Trust, *An Inventory of Conservation Easement Activity in Minnesota* (St. Paul, January 2010).

In recent years, much of the monies for state-funded acquisitions of conservation easements have been provided by the Legislative Citizens Commission on Minnesota Resources (LCCMR) and the Lessard-Sam's Outdoor Heritage Council (LSOHC), both of which receive constitutionally-dedicated monies from portions of the proceeds of the state lottery and the state sales tax, respectively.

Previously, much of the state-funded conservation easement acquisitions had been focused on the state's Conservation Reserve Enhancement Program (CREP) and Reinvest in Minnesota (RIM), both of which focus on the restoration of marginal agricultural land for environmental or conservations purposes largely in the western and southern areas of the state. Of the approximately 6,600 state-funded easements acquired through 2011 over 5,200 were for CREP and RIM. During most of that period northern Minnesota was relatively unaffected by state-funded conservation easements with the exception of conservation easements for wetland mitigation.

That changed in 2010 when a LSOHC grant to the DNR allowed the acquisition of a conservation easement on 187,876 acres of northern Minnesota forest lands from UPM Blandin Forestry, a subsidiary of an international forest products company. Suddenly, over 31% of the approximately 600,000 acres of state-funded conservation easement acquisitions were located in the northern Minnesota. By mid-2021, of the 318,856 acres of conservation easements acquired by LCCMR and LSOHC, nearly 71% or 226,117 were located in just six northern counties.

Table 18
Acres of Legislative Citizens Commission on MN Resources- & Lessard Sams Outdoor Heritage Commission Conservation-Funded Easements for Selected Counties

County Name	Total Acres LSOHC-Funded Easements	Total Acres LCCMR-Funded Easements	Total Acres LCCMR- & LSOHC-Funded Easements	County LCCMR- & LSOHC-Funded Easement Acres as % of Statewide Total
Itasca	157,946.0		157,946.0	49.5%
St. Louis	24,748.0		24,748.0	7.8%
Lake	15,295.0	102.3	15,397.3	4.8%
Koochiching	11,505.0		11,505.0	3.6%
Aitkin	6,729.0	171.1	6,900.1	2.2%
Crow Wing	5,968.0	3,653.3	9,621.3	3.0%
Total All Counties	295,938.0	22,918.8	318,856.8	

IMPACT ON COUNTIES

Despite the fact that land with a conservation easement upon it continues in private ownership and remains taxable, the impact on counties is similar to that of state-owned natural resources land in that:

1. a county experiences tax base and revenue loss on lands with conservation easements established before May 23, 2013 or those which establish riparian buffers for water quality or quantity control because the taxable market value of the property is reduced by the value of the easement,
2. the land captured within a conservation easement cannot be developed further adding to the county's tax base loss over time, and
3. the county sheriff still needs to respond to public safety issues on lands with conservation easements where public access is allowed for recreational purposes like the UPM Blandin Forestry conservation easement and the county and townships still need to maintain roads to provide access to those lands.

Tax Base and Revenue Loss on Lands with Conservation Easements

There is no statewide collection or documentation of the tax base loss due to conservation easements. Three counties provided data on the value of the exemption for conservation easements within their jurisdictions for this report.

Table 19
Increase in "Exempt" Value for Natural Resources Land Due to Conservation Easements in Selected Counties

County	Existing Exempt Value of PILT Land	Conservation Easement Exempt Value	% Increase in Natural Resources Land Exempt Value as a Result of Conservation Easements
Aitkin	$ 629,959,900	$ 3,008,000[9]	0.5%
Itasca	605,200,300	27,115,000	4.5%
St. Louis	1,177,887,900	20,344,917	1.7%

The vast majority of the conservation easements' exempt value in the three counties was due to the UPM Blandin Forestry easement. Initially, the tax base loss was so large - $137.9 million for the January 2, 2010 assessment and $164 million for the January 2, 2011 assessment, that Aitkin, Itasca, Koochiching and St. Louis counties engaged in protracted litigation with UPM Blandin

[9] Includes value of UPM Blandin Forestry easement only. The values for the other two counties include that for other conservation easements in addition to the UPM Blandin Forestry easement.

Forestry. That only ended in 2017 with a settlement that resulted in substantially lower tax base loss that was facilitated in part by a state law change that allowed the land in question to qualify for the state's Sustainable Forest Management Incentive Program's incentive payments that are intended to offset some of the land's property taxes. Some of those payments were or will be refunded to the counties for 10 years to offset the tax base loss.

Although the ultimate loss of additional tax base due to the conservation easements in the three counties appears small relative to the loss already experienced due to the tax exemption of state natural resources land owned in fee title, it is still significant. Based on pay 2020 county tax rates, the estimated loss in county tax revenues due to the exempt conservation easements are as follows:

- Aitkin County - $14,760
- Itasca County - $167,332
- St. Louis County - $133,687

This compounds the fact that all three of these counties are already undercompensated for tax base loss by PILT for state natural resources land owned in fee title.

Table 20
Additional Loss in County Revenues Due to Conservation Easements

3 Counties with Highest Shortfall	Shortfall in County Share of PILT Relative to Estimated County Tax on PILT Land	Loss in County Tax on Conservation Easements	Combined County Tax Loss on Conservation Easements & PILT Land
St. Louis	($4,610,486)	(133,687)	($4,744,173.00)
Itasca	($2,283,012)	(167,332)	($2,450,344.00)
Aitkin	($1,695,570)	(14,760)	($1,710,330.00)

Land Captured within a Conservation Easement Cannot Be Developed Adding to the Tax Base Loss Over Time

Just as counties forego the "opportunity" of increased tax base from development on particularly lakeshore within PILT land, the same is true for lakeshore on land with a conservation easement. It can never be developed and counties forego the tax revenue from the development that would otherwise occur in the future.

St. Louis County provided information for this report on the value of that "development." Within St. Louis County, that "development," the additional value from improvements, on improved seasonal residential recreational land with lakeshore frontage equals $288 per front foot of lakeshore. Cabins and other improvements add over $800 million of market value on top of or in addition to the $1.048 billion market value of raw land for improved seasonal residential recreational property with lakeshore frontage in St. Louis County.

Within the UPM Blandin Forestry conservation easement around Coleraine alone, otherwise developable lakeshore exists on at least two developed lakes, Prairie Lake and Reily Lake. The conservation easement will prevent that development and the tax base and revenues that would come with it from ever occurring. The lost "opportunity" for development on those and other lakes within the conservation easement and lost tax base would be similar to St. Louis County's at $288 per front foot of lakeshore. Thus, if the developable lakeshore within a conservation easement equals even just 1,000 feet for example, the tax base loss from future development would equal approximately $288,000.

Additional or Unique impacts on Aitkin County Due to Wetland Bank and Forestry Conservation Easements

Aitkin County has the distinction of being the county with the highest concentration of wetland bank credits available in the state – 715.2. This does not include wetland bank credits that have already been sold. A wetland bank credit is available for purchase by a government or private contractor to mitigate the degradation or destruction of a wetland by a construction project as required by state and federal law. The credit represents a wetland created or restored. Generally, a credit ranges from 100% to 50% of the acreage of the new or restored wetland created depending on the degree of restoration or creation. A conservation easement is always recorded on a wetland bank site. In addition to wetland bank sites within Aitkin County, there are an additional indeterminate number of wetland mitigation sites within the county where a contractor acquired a parcel to restore or create a wetland to mitigate the wetland impacts of construction projects of their own that impacted or destroyed a wetland. The bottom line is that Aitkin County has already suffered tax base loss due to the extraordinary number of wetland banks credits with their accompanying conservations easements within its confines. The additional conservation easements acquired with state funds from the LSOHC has added to that tax base loss.

CONCLUSIONS

It is clearly demonstrable that state-funded conservation easements cause a loss in tax base and tax revenues. Furthermore, the impact of state-funded conservation easements adversely affects several of the counties already suffering the disproportionate impact of state land ownership.

The fact that the lands with state-funded conservation easements are not owned in fee title and thus do not qualify for PILT is a distinction unrelated to the real impact of the affected lands on counties with large conservation easements within their jurisdictions.

Chapter 5
Recommendations

RECOMMENDATION #1

Increase PILT for County and DNR Administered Other Natural Resources Land $1/ Acre

This report has focused on whether purposes #1 and #2 are being met. **Chapter 3, The Property Tax Impacts of PILT**, analyzed whether PILT effectively compensates counties "for the loss of tax base from state ownership of land" per #1. The conclusion was that for half the counties' PILT was not adequately compensating them for the tax base loss due to the tax-exempt status of PILT land per **Table 17** on page 43. Fifteen of the counties suffering the largest loss are northern Minnesota counties. All of those 15 counites also share the distinction of receiving PILT payments of less than $5 per acre, little changed from their level 41 years. The absence of any significant growth in PILT for those and several of the other counties that have been undercompensated for the tax-exempt status of PILT acres suggests that PILT needs to be increased for those counties specifically.

The 15 counties suffering the largest shortfall in PILT payments for the tax revenue lost due to the tax exemption of PILT land also have heavy concentrations of County- and DNR-Administered Other Natural Land. So, keying additional PILT to counties with those categories of PILT lands is one way of targeting additional PILT to those counties experiencing the largest shortfall in payments for the tax revenue lost due to the tax exemption of PILT land.

RECOMMENDATION #2

Provide a new category of PILT for Counties with High Concentrations of PILT Land Equal to:

- **18¢ per PILT acre for counties where PILT land is 25% or more of its total acreage or**
- **8¢ per PILT acre for counties where PILT land equals or exceeds 10% or more but less than 25% of its total acreage.**

As shown on the map, **PILT Eligible Acreage as a Percentage of Total Acreage** on page 36, PILT acreage is concentrated in northern Minnesota. Yet a comparison with the map, **Average 2020 PILT Per PILT Eligible Acre,** on page 19 of **Chapter 1** shows all those counties where PILT land is 10% or greater of their total acreage receive PILT that is less than $5 per acre except Marshall County, which received $5.32 per acre. Counties where PILT land is less than 10% of the county's total acreage receive an average PILT payment of $30.49 per eligible acre. Therefore, PILT goes up substantially as PILT land as a percentage of a county's total acreage **goes down** and the counties with the highest concentration of PILT eligible land **receive the lowest level of PILT per eligible acre**- exactly contrary to the purpose of PILT per clause 2 of section 477A.10.

RECOMMENDATION # 3

Index PILT's per acre rates for inflation.
Cost - Depends on rate of inflation and is only incurred in future bienniums.

The per acre rates for PILT payments should be indexed for inflation so they can grow just like the PILT payments for Acquired Natural Resources Land and Wildlife Management Lands do right now for the vast majority of counties who elect the 3/4 of 1% payment option. The per acre payment rates were indexed from 2001 until 2011 when the legislature repealed future, automatic increases for County- and DNR-Administered Other Natural Resources Land but not for Acquired Natural Resources Land and Wildlife Management Lands whose payments have continued to grow for those counties electing the 3/4 or 1% payment option.

RECOMMENDATION # 4

Provide that the Values Used for Computation of PILT for Acquired Natural Resources Land and Wildlife Management Land Cannot Be Reduced Below the Prior Value

Every six years, the valuation used for computation of PILT for Acquired Natural Resources Land and Wildlife Management Land is redetermined by local assessors. Possibly due in part to declines in the wood products industry and in part due to the impacts of the 2007-2008 Great Recession on demand for hunting land, the valuation for rural vacant land largely used for computation of PILT for Acquired Natural Resources Land and Wildlife Management Land fell in 37 counties between 2010 and 2016. Under current law those lower values were used for computation of PILT for the following six years. Some of the reductions in valuation and their corresponding PILT were as high as (38.5%).

RECOMMENDATION # 5

Via a Study to Be Coordinated by the Department of Revenue Determine the Valuation of Lakeshore within County- and DNR-Administered Other Natural Resources Land

Those counties containing Acquired Natural Resources Land and Wildlife Management Land with lakeshore receive PILT payments based on the value of that lakeshore. In the northern counties where the other categories of PILT land - County- and DNR-Administered Other Natural Resources Land – predominate, their lakeshore does not qualify for payment based on the ¾ of 1% of appraised value option. Documentation via the study would identify the valuation of that land and allow exploration of options to redress the imbalance in PILT payments on lakeshore.

About the Author

Keith Carlson is the former executive director of the Minnesota Inter-County Association, a lobbying and government services organization. Before that he was fiscal analyst for the Minnesota Senate Tax Committee where he worked 21 years. He researched income, sales, taconite and property tax issues as well as property tax relief programs in the course of assisting senators in coming up with legislation to address various tax issues coming before the Legislature. Keith was on the committee staff when PILT was first enacted in 1979. He also served as a subject matter expert when the DNR conducted its study, Payment In Lieu of Taxes for State Natural Resources Lands, in 2011 and 2012.

As the Minnesota Senate resolution recognizing his 2019 retirement stated: “Keith is an acknowledged expert on State and local gov’t finance systems and property taxes and has provided over 3 decades of guidance, expertise, and training to elected county officials across the state thereby enhancing county governance on behalf of all Minnesota residents.” The resolution went on to state: “we commend Keith Carlson for 42 years of service at the State Capitol, extend our appreciation for his contributions to the legislature and wish him a long and productive retirement.”