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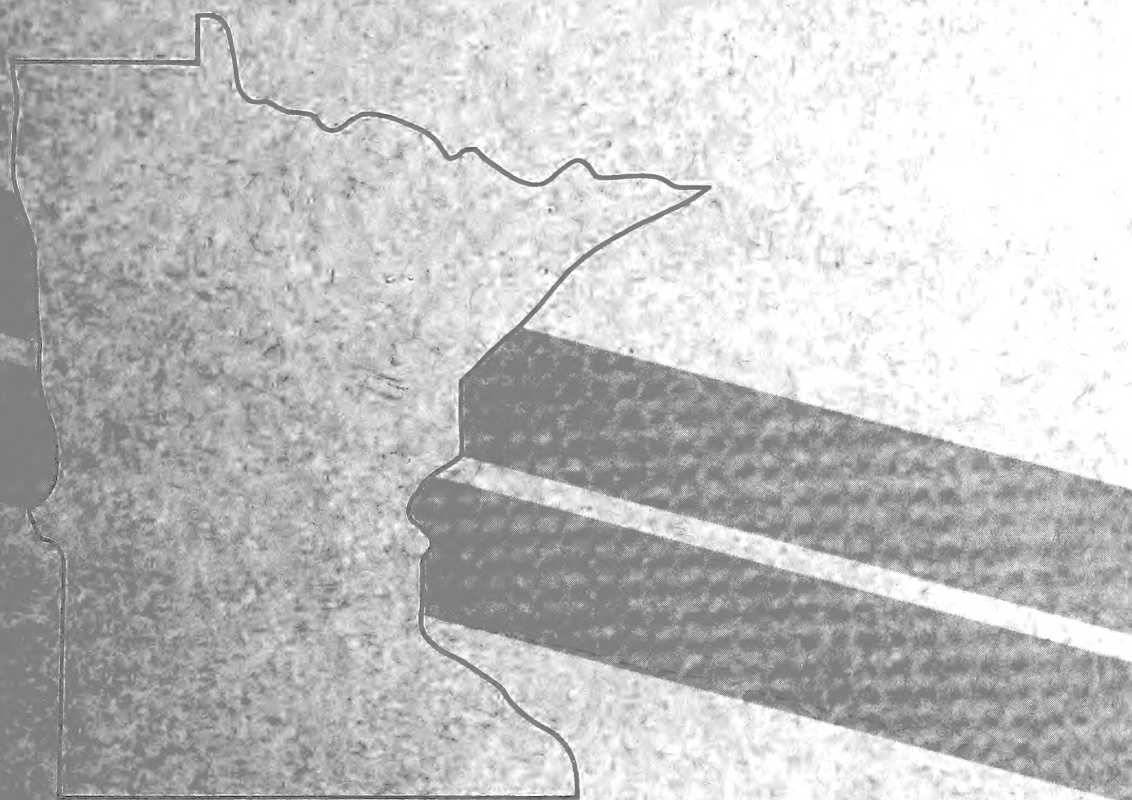
Minnesota's Tax-forfeited Land:



Some TRENDS in revenues and expenses

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ADMINISTERING MINNESOTA'S TAX-FORFEITED LAND: SOME TRENDS IN REVENUES AND EXPENSES

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SIZE AND BASIC ADMINISTRATION

About 2.9 million acres in 16 northern Minnesota counties is tax-forfeited land—property that has reverted to the State and is administered by local county government because private owners have failed to pay the property tax.

There are two basic ways county land in the 16 northern Minnesota counties are managed: (1) through a land department, and (2) through the county auditor's office.

Twelve of the 16 counties have a land department under the direction of a land commissioner who is appointed by the county board. These counties include: Aitkin, Becker, Beltrami, Carlton, Cass, Clearwater, Crow Wing, Hubbard, Itasca, Koochiching, Lake, and St. Louis. Currently 97.5 percent of tax-forfeited land is managed this way. The land department, depending upon the acreage administered, may include a staff of foresters, timber and land appraisers, and office workers. The basic philosophy of most land departments has been to manage for multiple uses but with heavy emphasis on reforestation and marketing timber products. Recently, recreation, wildlife habitat management, and environmental education have become increasingly more important to some of the counties.

In the remaining four counties—Cook, Mahnomen, Pine, and Wadena—the county auditor's office manages tax-forfeited land. These counties over the past decade or two have either sold the bulk of their land to private owners or transferred the land management duties back to the State under a revenue sharing arrangement. Compared to the former group, these counties have practiced very little forestry. Their primary objective has been to transfer either ownership or management outside county government.

HOW STATE LAW AFFECTS ADMINISTRATION

State law provides that the net revenues, after deducting administrative expenses and any other special funds such as a timber development fund and/or a county park fund, will be apportioned in the following manner: school district, 40 percent; county revenue fund, 40 percent; and organized township or village, 20 percent. For unorganized townships, the 20 percent share generally is apportioned to the county revenue fund. However, in at least one instance, this money is apportioned to the road and bridge fund.

Thus, with this type of law, the counties are in a unique position with respect to other public agencies administering and managing land in Minnesota. They must, for the most part, depend on revenues generated from within their land department activities to cover their costs of operation, and return the surplus to other county funds. No other public land management agency operating in Minnesota is faced with this type of situation.

How have the county departments fared under this type of financial structure? The purpose of this report is to analyze (1) the trends and sources of revenues generated from the administration of tax-forfeited land and (2) the trends in expenses needed to administer this land.

TRENDS FOR COUNTIES AS A GROUP

Total gross revenues and expenses from administering tax-forfeited land in the 16 northern Minnesota counties changed significantly for the period 1960 through 1974.[1]

Total gross revenues received increased from $1.15 million in 1960 to $3.84 million in 1974 (fig. 1). This is an increase of about 7.8 percent per year. These total figures, however, are heavily weighted by the contribution of St. Louis County because approximately 40 percent of the 16 county tax-forfeited revenue is derived in St. Louis County.[2] Looking at total gross revenues for the other northern Minnesota counties excluding St. Louis County, the increase was from $0.65 million in 1960 to $2.34 million in 1974. The yearly rate of increase, however, remains essentially the same.

Total expenses for administering the tax-forfeited lands in the 16 counties increased from $0.4 million in 1960 to $1.2 million in 1974, a rate of increase of 8.5 percent per year. Again, looking at all counties except St. Louis County, the increase was from $0.24 million in 1960 to $0.82 million in 1974. The rate of increase, excluding the St. Louis County contribution, is slightly higher at about 9.5 percent per year.

Although expenses have increased faster than total gross revenues, revenues have exceeded expenses by a substantial margin throughout the period. In other words, enough revenue has been generated throughout the period to meet current expenses and still apportion monies back to the various county funds prescribed by law. Thus, at first glance, there does not appear to be any financial crisis developing with the counties' capability to generate enough revenue to manage the tax-forfeited lands in the immediate future.

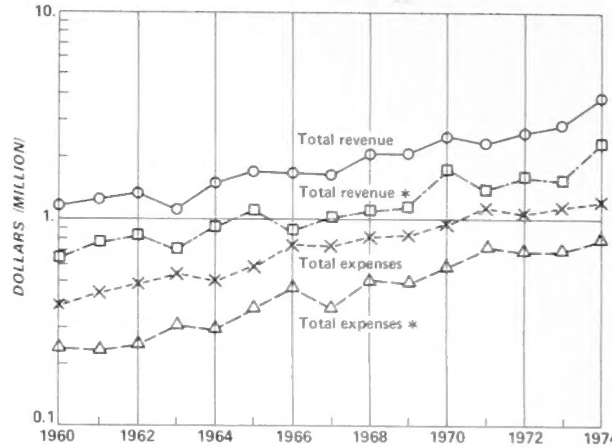

Figure 1.-*Total revenues and expenses from the administration of tax-forfeited land in 16 northern Minnesota counties, 1960 to 1974.* (** indicates exclusion of St. Louis County.*)

Analyzing Revenue

However, a closer examination of total gross revenues shows there may indeed be some potential problems. Total revenues can be separated into two basic components: (1) revenue from the sale of tax-forfeited land back to private interests and in a few instances to other government agencies; and (2) revenue from the management of this land including the sale of timber stumpage, recreational and hunting leases, easements, hay stumpage, gravel, mining royalties, etc., in addition to federal and state revenue sharing programs. Revenue from the sale of land results in essentially a one-time contribution to the land department or the county tax-forfeited land fund, assuming the land does not go tax delinquent again. This is because land is a capital asset and the sale of this asset represents a depletion of capital to the land department. Revenue from the management and use of the land on the other hand, is a recurring contribution. The same parcel of land can produce annual or other periodic revenue.

[1]*The statistics in this bulletin are based on data gathered from three primary sources: Individual county offices, the Iron Range Resources and Rehabilitation Board, and the Minnesota Department of Natural Resources.*

[2]*St. Louis County revenue also includes monies received from mining royalities from county lands. While this money goes directly into the general revenue fund in St. Louis County, it is revenue that is derived from tax-forfeited land.*

An examination of these two basic components reveals that revenue generated from land sale has been a major share of total revenue averaging about 53.5 percent over the 15-year period.[3] The yearly share of land sales ranged from a low of 34 percent to a high of 66 percent. In 10 of the 15 years, land sale revenue was more than 50 percent of the total gross revenue. The average annual increase in land sale revenue was about 10.6 percent.

Therefore, it appears the counties as a group have relied heavily on revenue generated from land sales, and as stated before, have been depleting their capital to help cover administrative costs and provide monies for apportionments to other county funds prescribed by State Law (fig. 2).

Looking at the other side of the coin, recurring revenue from land management activities was not sufficient to cover administrative costs in 10 years of the 15-year period (fig. 3).[4] This was particularly true from 1965 through 1973. Revenue from sources other than land sales was almost constant (no trend) from 1960 through 1969 (fig. 2). Finally in 1970, revenues, primarily from selling timber stumpage, began increasing. In 1974, revenue from timber stumpage and other miscellaneous sources again exceeded administrative costs.

It appears that the counties as a group would have faced rough times in the past if they had relied strictly on revenue from selling timber and other miscellaneous revenue sources to cover their administrative costs and return monies back to the county treasuries for other apportionments. (It can be argued that many of the administrative costs are also associated with appraising land and setting up land sales, and without this program, the administrative costs would have been considerably less. Contrarily, without land sales, many of the administrative efforts could have been channeled into resource management for timber, recreation, wildlife, and minerals that would benefit the public in many other ways.)

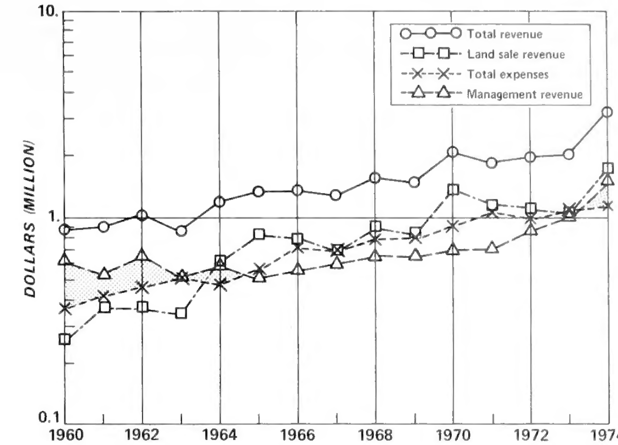

Figure 2.-*Total revenue, revenue components, and total administrative expenses from the administration of tax-forfeited land in 12 northern Minnesota counties, 1960 to 1974.*

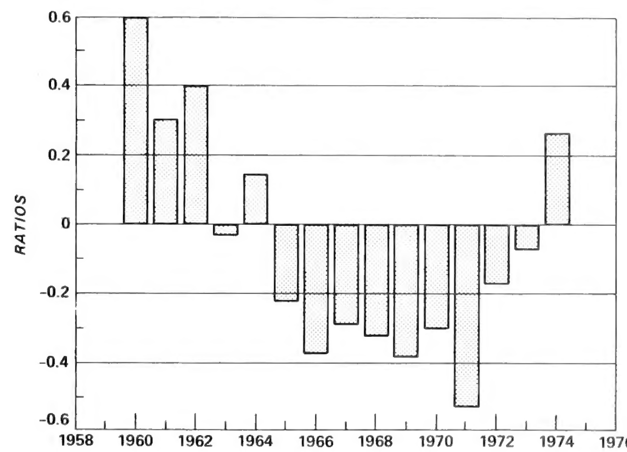

Figure 3.-*Revenues (excluding land sale revenue) and total expense ratios from the administration of tax-forfeited land in 11 northern Minnesota counties, 1960 to 1974.*

INDIVIDUAL COUNTY TRENDS

The acreage that individual counties administer ranges widely from county to county (Lothner *et al.* 1978)[5], as do the revenues and expenses from their administration. Forty percent of the aggregate county total revenue is generated in St. Louis

[3]*Excludes Cook, Crow Wing, Mahnomen, and Pine Counties because of insufficient data for these counties.*

[4]*Benefits still accrued, however, to loggers and others who were dependent on county timber for a livelihood and to the county itself through added employment in timber-based industries.*

[5]*Lothner, David C., Edwin Kallio, and David T. Davis. 1978. Minnesota's tax-forfeited land: some trends in acreages, sales, and prices. U.S. Dep. Agric. For. Serv. Resour. Bull. NC-37, 6 p. North Cent. For. Exp.Stn., St. Paul, Minnesota.*

County. St. Louis along with Itasca and Koochiching account for 67 percent of the total revenue generated from tax-forfeited lands. Timber production is a major management objective. Koochiching and Itasca Counties ranked one and two among the 16 counties in timber sale revenue for the 1972-1974 period, averaging $201 thousand and $109 thousand, respectively. Revenues and expenses by county are given in figure 4.

Growth in total revenue over the 1960 to 1974 period was the fastest in Becker and Carlton Counties (fig. 4). They had an average rate of growth of 12.5 percent and 11 percent per year, respectively. In Becker County, the growth was largely due to increases in revenue from land sales. In Carlton County, on the other hand, total revenue growth was largely due to the 23 percent annual average increase in timber stumpage and other miscellaneous revenue.

In contrast, Lake and Hubbard Counties had the slowest rate of growth in total revenue (fig. 4). Lake County total revenue was highly variable in the early 1960's before leveling off in the late 1960's, and little trend can be seen. The major reason for the slow growth rate in Lake County total revenue resulted from no land sales after 1963. Hubbard County, likewise, shows very little trend. However, Hubbard's land sale revenue increased from 30 percent of total revenue to approximately 50 percent over the period.

HOW COUNTIES COVER ADMINISTRATIVE EXPENSES

Earlier we looked at how counties as a group covered expenses from timber sales and other land management revenues. There is sufficient detail to look at 11 counties individually (fig. 4).

We have categorized the counties into four separate groups. It should be emphasized that in looking at the county's capability of covering administrative expenses, we make no judgments on management efficiency. The counties differ in their management philosophy and they vary in their emphasis on nonrevenue generating programs, which often provide intangible benefits but also cost dollars.

Two counties where revenues exceeded expenses throughout the period. Both Beltrami and Koochiching Counties fall into this group (fig. 4). Beltrami County, however, has experienced a 21 percent per year increase in expenses, whereas, revenue from land management sources remained almost constant until 1969 before accelerating to about a 16 percent per year increase in the 1970's. Koochiching County, on the other hand, had an even rate of growth for total revenues, land management revenue, and expenses throughout the period. The sharp increase in land sale revenue in 1974 was primarily due to county land sold for inclusion in the Voyageurs National Park.

Two counties where an early surplus of revenue became a deficit. Both Aitkin and Hubbard Counties started out the period with surplus revenue (fig. 4). Aitkin County lost its surplus in 1965 and remained in a deficit position through the end of the period. Expenses increased at a 12 percent annual rate while there was little change in land management revenue throughout the period until a dramatic increase in 1973 and 1974. Hubbard County started out the period with a large surplus which diminished over the period. Beginning in 1972, expenses exceeded land management revenue and increased at a 10 percent annual rate, while land management revenue showed little change throughout the period.

Four counties having alternating periods of a surplus and deficit. Cass, Clearwater, Itasca, and Lake Counties all fall into this group (fig. 4). Cass County had a surplus for 13 of the 15 years. Land management revenue remained quite stable through 1969 before accelerating at a 22 percent annual rate after 1969. Expenses, meanwhile, increased at a 15-percent-per-year rate over the period.

In Clearwater County, land management revenue and expenses increased at a fairly similar rate over the period. Revenues, however, exceeded expenses in 11 of the 15 years.

Lake County witnessed extreme variations in land management revenue and expenses. Revenues again, however, exceeded in 11 of the 15 years.

Itasca County had land management revenues exceeding expenses in 9 of the 15 years.

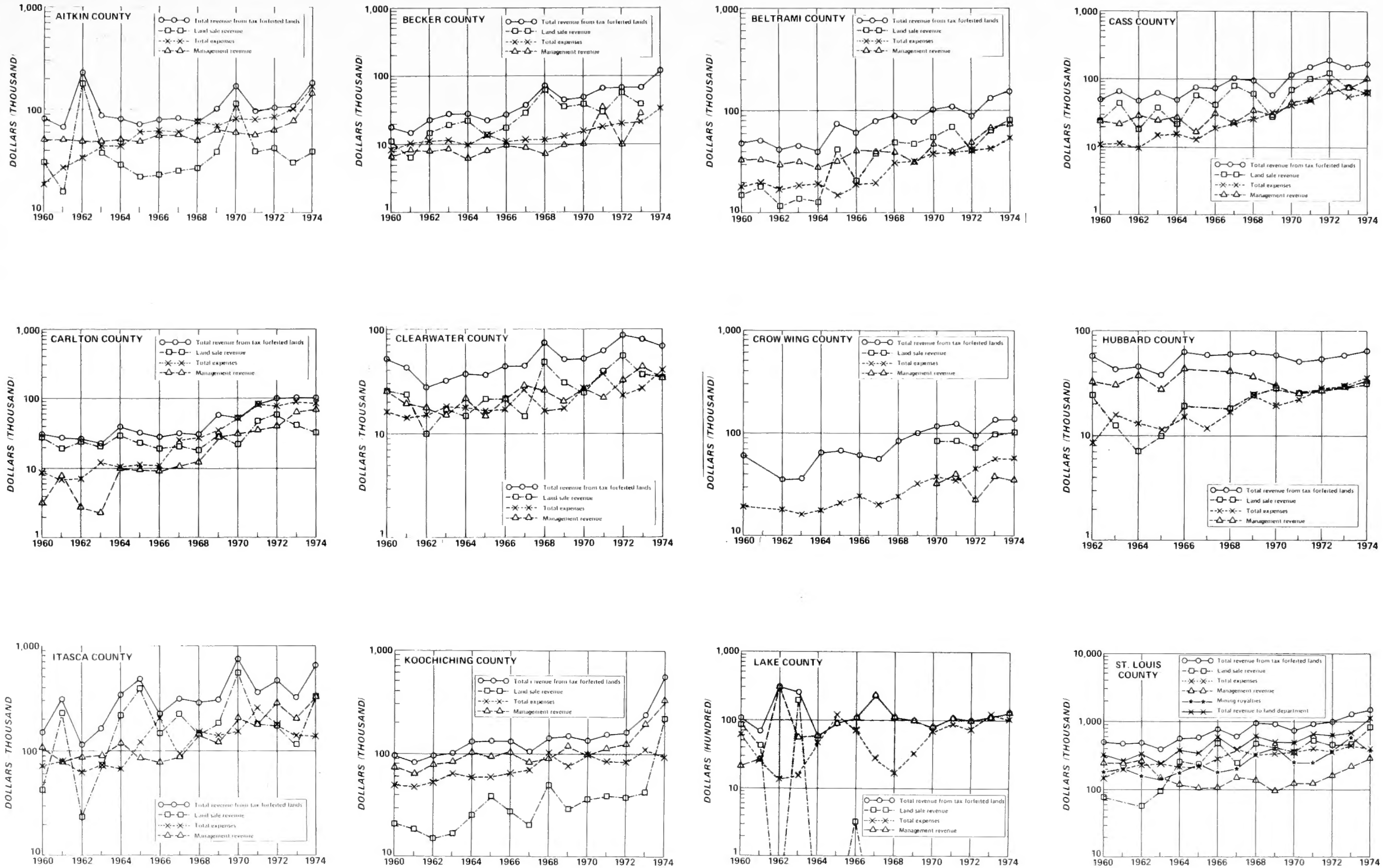

Figure 4.-*Total land sale, and management revenues, and total expenses by individual county, 1960 to 1974. A surplus of land management revenue over total administrative expenses is shaded.*

Three counties with a deficit over almost the entire period. Becker, Carlton, and St. Louis Counties (fig. 4) had very few years in a land management revenue surplus position. Two counties relied quite heavily on land sale revenue. St. Louis County, on the average during 1972 to 1974 period, depended upon land sale revenue for over 70 percent of the total revenue to the land department, while the land sale share for Becker was 65 percent. The land sale share for Carlton County for the same period was 45 percent.

Thus, throughout the 1960 to 1974 period, only 2 of 11 counties—Beltrami and Koochiching—consistently administered their tax-forfeited land without depending upon revenue from land sales.

A further review of the information in figure 4 will permit the reader to make additional observations about the individual counties.

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Revenues received from managing Minnesota county land increased at a slower rate than the expenses incurred in their management over the 1960-1974 period. However, due to a substantial land sale program, the revenues received exceeded the expenses incurred throughout the period.

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More bicycles and shoe leather...less smog