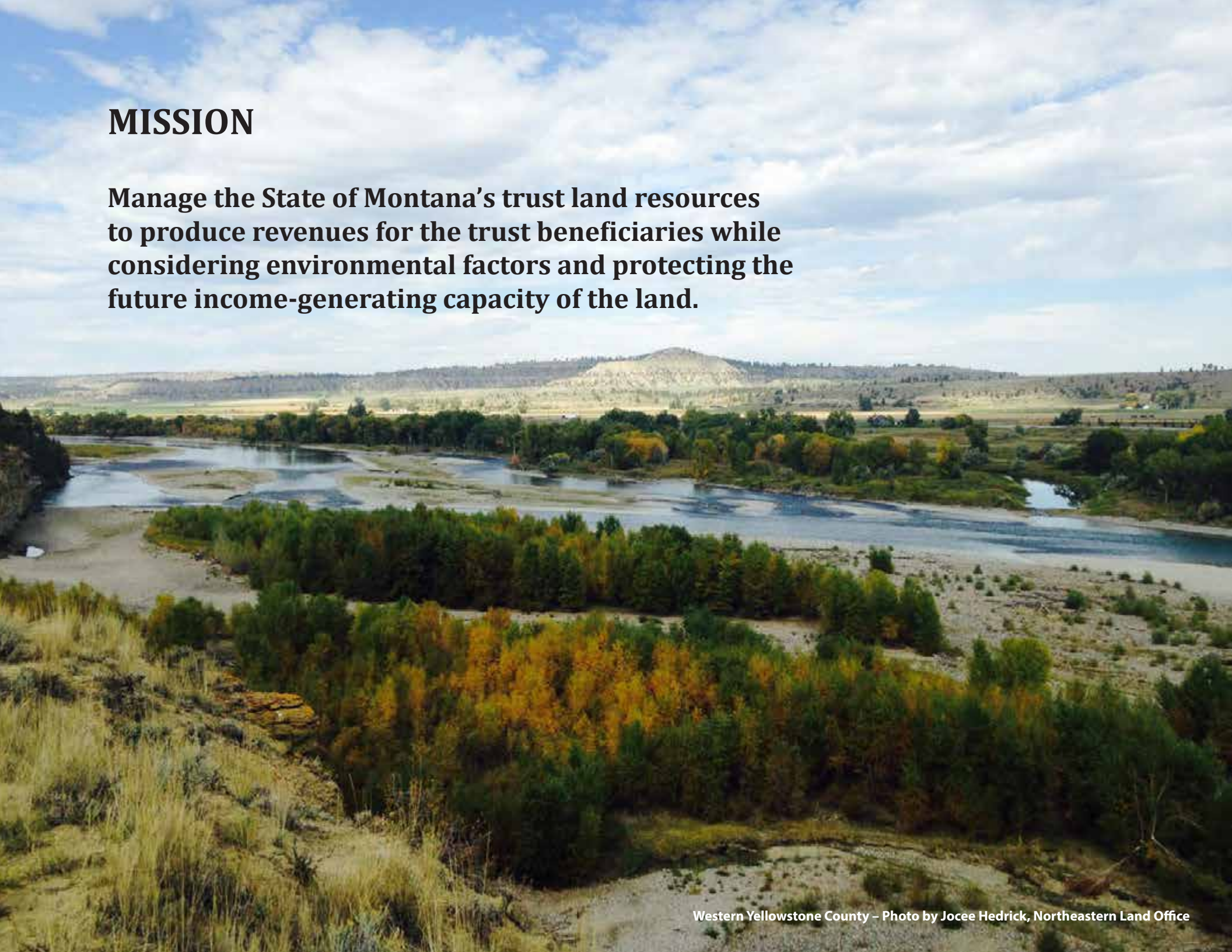
Montana Department of Natural Resources and Conservation

Annual Report Fiscal Year 2019
Trust Lands Management Division

MISSION

Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.



Western Yellowstone County – Photo by Jocee Hedrick, Northeastern Land Office

TABLE OF CONTENTS

Montana State Trust Lands & Quick Facts 3

Overview & History 4

Agriculture & Grazing Management Bureau 6

Forest Management Bureau 8

Minerals Management Bureau 11

Real Estate Management Bureau 13

Financial Highlights 19

Trust Acres 25

Return on Assets 26

EXECUTIVE TEAM

Shawn Thomas
Division Administrator

Kelly Motichka
Agriculture & Grazing Management Bureau Chief

Monte Mason
Minerals Management Bureau Chief

Dan Rogers
Forest Management Bureau Chief

Mike Atwood
Real Estate Management Bureau Chief

Greg Poncin
Northwestern Area Manager

Mike O'Herron
Southwestern Area Manager

Hoyt Richards
Central Area Manager

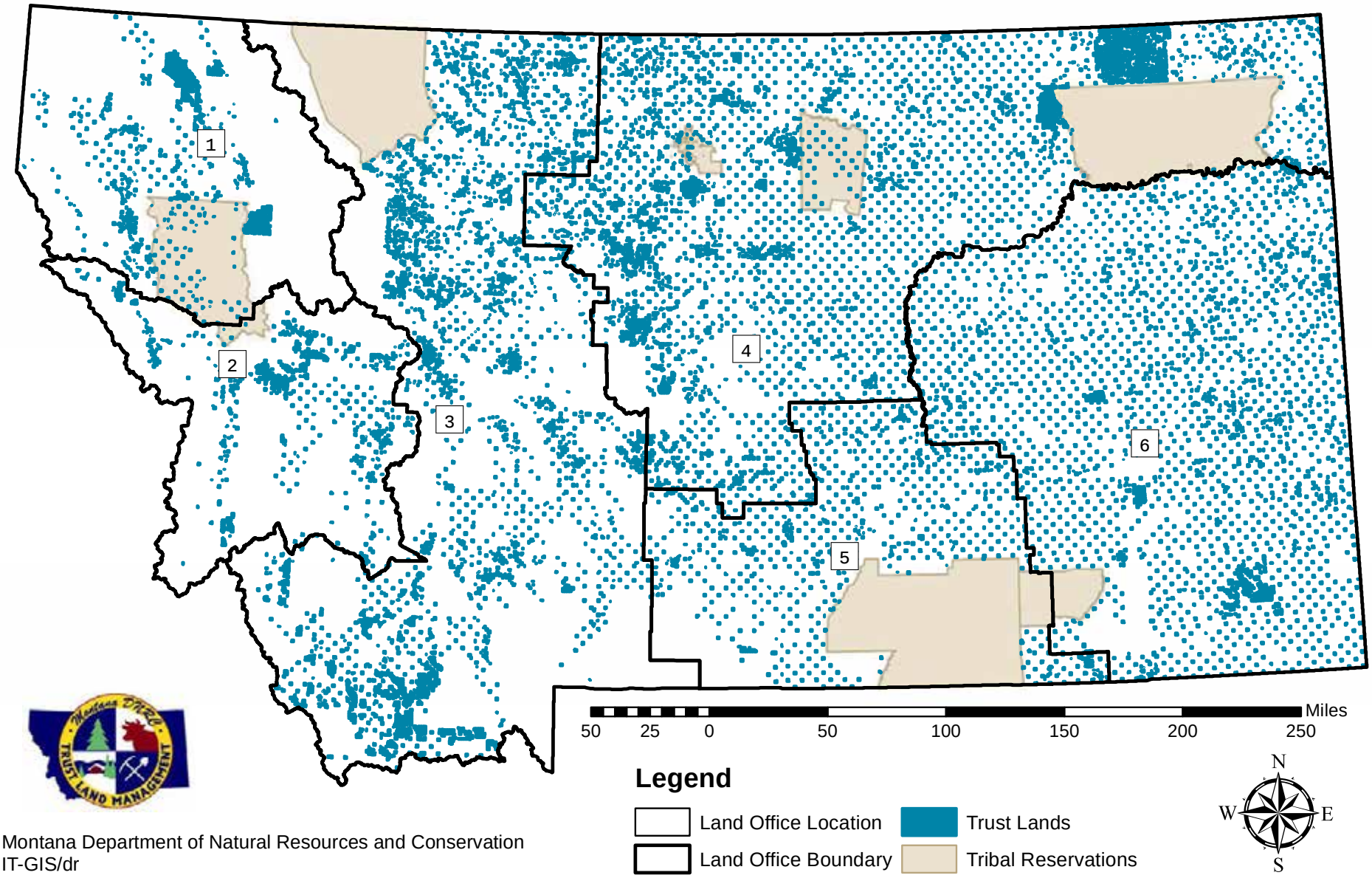
Clive Rooney
Northeastern Area Manager

Matt Wolcott
Southern Area Manager

Chris Pileski
Eastern Area Manager

Big Horn County – Photo by Jocee Hedrick, Northeastern Land Office

MONTANA TRUST LANDS



Montana Department of Natural Resources and Conservation
IT-GIS/dr
November 23, 2018

AREA & UNIT OFFICES

DNRC Headquarters
1539 Eleventh Avenue
Helena, MT 59620-1601

1. Northwestern Land Office
655 Timberwolf Parkway
Kalispell, MT 59901
with unit offices in
Kalispell, Libby, Plains, Stillwater, Swan

2. Southwestern Land Office
1401 27th Avenue
Missoula, MT 59804
with unit offices in
Missoula, Clearwater, Anaconda, Hamilton

3. Central Land Office
8001 N Montana Avenue
Helena, MT 59602
with unit offices in
Helena, Bozeman, Conrad, Dillon

4. Northeastern Land Office
613 NE Main Street
Lewistown, MT 59457
with unit offices in
Lewistown, Glasgow, Havre

5. Southern Land Office
1371 Rimtop Drive
Billings, MT 59105

6. Eastern Land Office
321 Main Street
Miles City, MT 59301

QUICK FACTS

125.55 FTE
TOTAL DIVISION FTE

5.2 MILLION
TOTAL SURFACE ACRES

64
ACTIVE TIMBER SALES

8,935
AG & GRAZING LEASES

6.2 MILLION
TOTAL MINERAL ACRES

1,298
OIL & GAS LEASES

31
COAL LEASES

137
COMMERCIAL LEASES

54.8 MMBF
TIMBER HARVESTED

208,015
TREE SEEDLINGS PLANTED

587
ACTIVE RESIDENTIAL LEASES

449
RIGHTS OF WAY PROCESSED

46
CABIN SITES SOLD AT AUCTION

764
ACTIVE LAND USE LICENSES

2
LAND EXCHANGES COMPLETED (583 ACRE NET GAIN)

6,381
ACRES ACQUIRED THROUGH LAND BANKING

4
LAND BANKING SITES SOLD AT AUCTION

Photo by Dustin Lenz, Northeastern Land Office

FY 2019
TRUST LANDS OVERVIEW

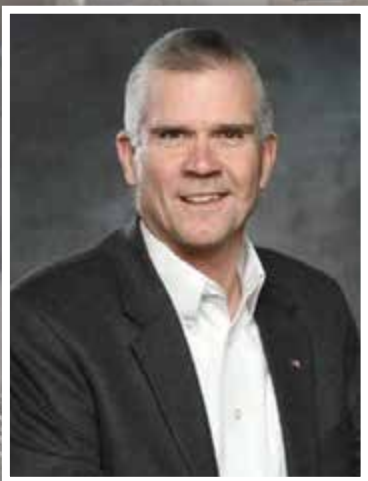
The mission of the Trust Land Management Division (TLMD) is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the Common Schools and other endowed institutions in Montana, under direction of the Board of Land Commissioners. The Board of Land Commissioners, which is also known as the "State Land Board," consists of Montana's top elected officials.

Secretary of State
Corey Stapleton

Attorney General
Tim Fox

Governor
Steve Bullock

Superintendent of Public Instruction
Elsie Arntzen



Commissioner of Securities & Insurance
Matthew Rosendale

Montana State Capitol - Flickr Stock Photo

The division is divided into four primary programs: agriculture and grazing management, forest management, minerals management, and real estate management. Staff and program specialists in Helena and Missoula provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management. Additional program information can be found at the division's website: www.dnrc.mt.gov/trust/.

The department's obligation is to obtain the greatest benefit for the school trusts pursuant to 77-1-202, MCA. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts.

HISTORY

By the Enabling Act approved February 22, 1889, the Congress of the United States granted to the state of Montana, for Common Schools (K-12) support, sections 16 and 36 in every township within the state. Some of these sections had been homesteaded, some were within the boundaries of Indian reservations, and others had been disposed of before passage of the Enabling Act. Other lands were selected by the state in lieu of these lands. The Enabling Act and subsequent acts also granted acreage for other educational and state institutions. The trust beneficiaries are as follows:

- *Common Schools (K-12)*
- *The University of Montana*
- *Montana State University – Morrill Grant*
- *Montana State University – Second Grant*
- *Montana Tech of the University of Montana*
- *State Normal School (Montana State University at Billings, Universtiy of Montana at Dillon)*
- *Public Buildings*
- *Veterans Home*
- *School for the Deaf & Blind*
- *State Reform School (Pine Hills)*
- *Montana Developmental Center (Sir Trust 2007)*
- *Montana State Hospital (Sir Trust 2007)*
- *Public Land Trust Navigable Rivers (2010)*
- *Acquired Lands Trust (2011)*

In FY 2007, approximately 2,600 acres were donated to the State of Montana for school trust land. This donation added acreage to the School for the Deaf and Blind and created a trust for the Montana Developmental Center and the Montana State Hospital. Two other trusts have been created since then, Public Land Navigable Rivers and Acquired Lands.

The total acreage has fluctuated through the years due to land sales and acquisitions. Surface acreage at the end of FY 2019 was approximately 5.2 million acres and mineral acreage, approximately 6.2 million acres. Mineral acreage exceeds surface acreage because the mineral estate has been retained when lands were sold (See Table 10).

FY 2019 PROGRAM HIGHLIGHTS

AGRICULTURE & GRAZING MANAGEMENT BUREAU

The Agriculture and Grazing Management Bureau along with Area and Unit Office staff supervise the management and leasing of 4.7 million acres under approximately 8,900 agreements for crop and range land throughout the state.

SURFACE LEASING

The Surface Leasing Program is responsible for surface lease agreements. Last year, program staff processed approximately 1,000 lease renewals; advertised, competitively bid, and issued new leases; reviewed and processed assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collected, verified, and posted rentals and fees.

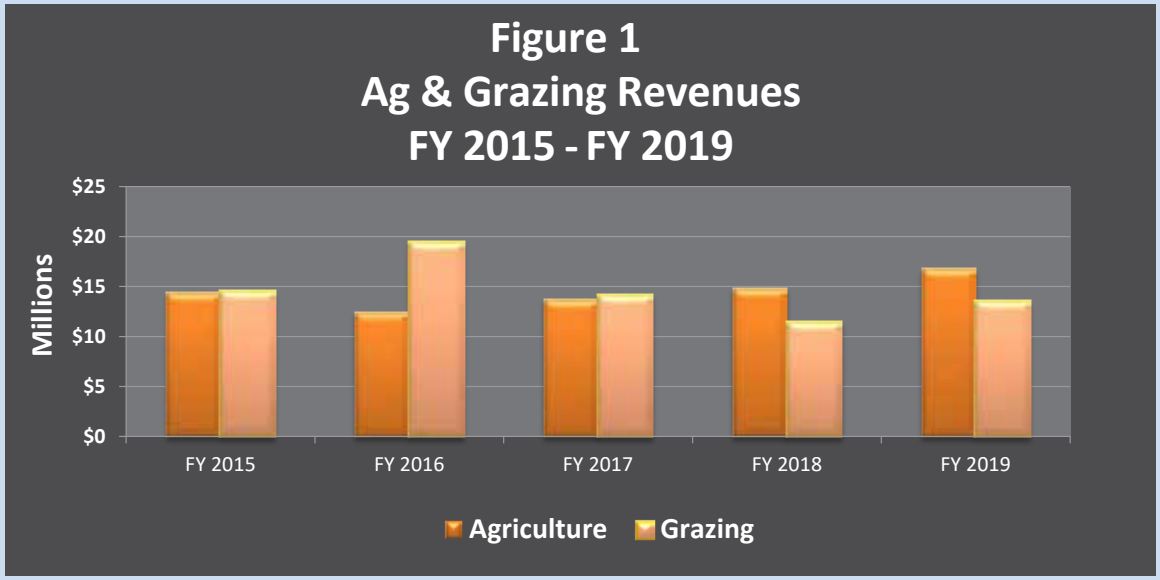
LAND MANAGEMENT

The Land Management Program manages agricultural and grazing resources on state trust land. Responsibilities include the evaluation and assessment of range and crop land condition; administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

AGRICULTURAL AND GRAZING LANDS

Currently, 2,722 agreements cover agricultural use of state trust lands. Crops raised on these lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed.

In FY 2019, agricultural leasing on 589,000 acres yielded $16.8 million in revenue. The majority of these leases are on a crop-share basis with a minimum share of 25% set by statute. Montana also participates in the Farm Program and receives payments from the US Department of Agriculture (USDA) Farm Service



Fergus County Cow – Photo by John Reddy

Agency. For FY 2019, these payments totaled $1.186 million, primarily for lands enrolled in the Conservation Reserve Program (CRP) and from Price Loss Coverage (PLC) contracts.

Approximately 8,025 agreements allow grazing on trust lands. The nearly 4.1 million acres of classified grazing lands and forest lands have an estimated carrying capacity of nearly 982,000 animal-unit-months (AUMs). The minimum rental rate for grazing leases, $13.10 per AUM, is set by a formula which includes the average weighted price for beef cattle sold in Montana during the previous year. In FY 2019, grazing leases generated $13.5 million in revenue. See Figure 1 for agriculture and grazing revenues from FY 2015 – FY 2019.

RECREATIONAL USE

Legally-accessible state trust lands are open to recreational use by the public by purchasing a conservation or general recreational use license. Sportsmen with a current conservation license are authorized to hunt, fish, and trap on these lands with the exception that trapping also requires a special recreational use license from DNRC at no additional charge. Through an agreement with the Department of Fish, Wildlife & Parks, $2 from the sale of each conservation license goes to trust beneficiaries in compensation for use of the land. The public can also purchase a general recreational use license for all other types of noncommercial and/or non-concentrated activities, such as hiking, biking, bird watching, berry picking, sight-seeing, horseback use etc.

In FY 2019, 499,969 conservation licenses were sold, generating $999,938 in gross revenue. A total of 13,879 general recreational use licenses were sold for a total of $149,856. Special recreational use licenses generated $191,600.

Photo by DNRC Southern Land Office Staff

FOREST MANAGEMENT BUREAU

Each year, foresters, scientists, and managers conduct several activities to ensure the long-term sustainability of forested state trust lands. Annual activities are aimed at generating income, monitoring and improving practices, investing in future productivity of forested stands, and conserving an array of resources. Revenue from these lands is derived mainly from the sale of forest products. While DNRC oversees less than 4% of the statewide forested landscape, the program accounts for nearly 25% of Montana's total timber volume sold per year. Statute directs DNRC to sell a consistent amount of timber each year, which in turn provides a consistent revenue source for the trust beneficiaries and a consistent source of material for the wood products industry.

Our forest management standards and philosophy are based on biodiversity, sustainability, and active management. We are guided by the State Forest Land Management Plan (SFLMP) and associated rules (2003) and DNRC's Forested State Trust Lands Habitat Conservation Plan (2011).

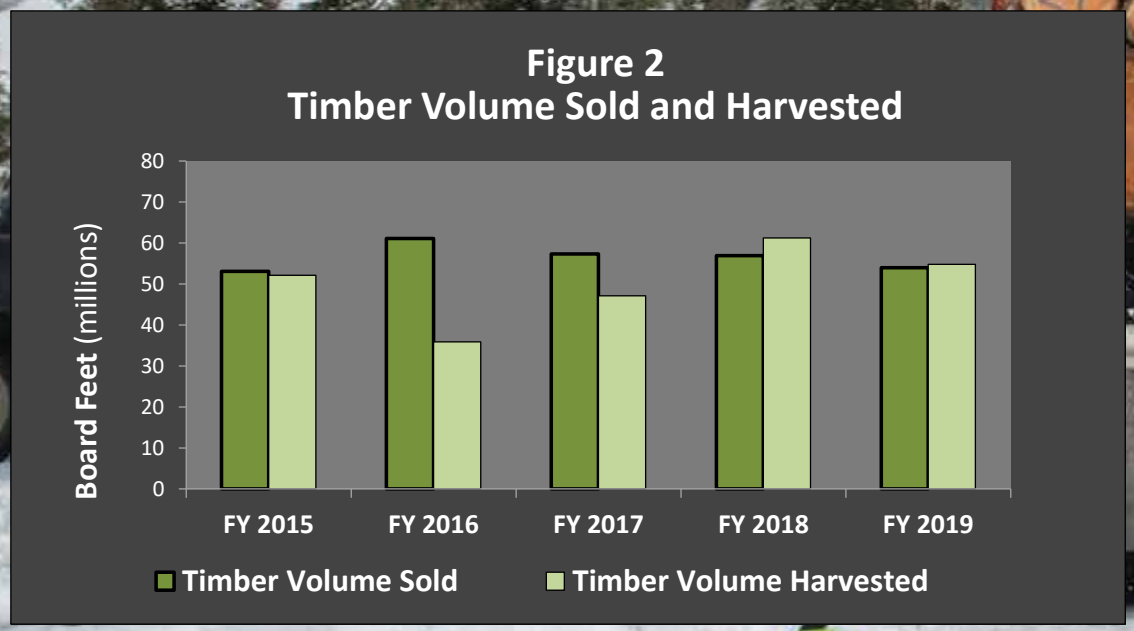
FOREST PRODUCT SALES

The forest product sales program incorporates activities and expenditures required to grow, harvest, and sell forest products from state trust lands. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that sales comply with all applicable laws, policies, and management direction. The current annual sustainable yield from forested state trust lands is 56.9 million board feet (MMBF). TLMD maintained a successful forest products sales program in FY 2019, though the forest products market fluctuated throughout the fiscal year. The Forest Management Program offered 58.7 MMBF of timber for sale, of which 54.0 MMBF was sold through timber sales, permits, and one conservation license in lieu of timber sale. The average stumpage price was $195 per thousand board feet, an 8% increase compared to FY 2018. The volume sold has an estimated total stumpage value of $10,587,270 and additional expected revenue of $607,484 in Forest Improvement fees. A total of 54.8 MMBF of timber and a minor amount of other miscellaneous forest products (posts, pulp, boughs, etc.) were harvested from state trust lands during FY 2019 (Figure 2). This volume generated $9,598,881 in stumpage revenue for the year. Table 1 shows the volume and value of the timber sold by area office.

Sula State Forest – Photo by Gary Frank, Forest Management Bureau, Missoula

Table 1
VOLUME & VALUE OF TIMBER SOLD BY AREA OFFICE FY 2019

Area Office	Volume (MBF)	Average Price ($/MBF)	Stumpage Value	Forest Improvement Fees
CLO	3,451	$120	$416,195	$12,478
Eastside (NELO, ELO, SLO)	0	0	2,040	0
SWLO	10,371	166	1,722,230	106,495
NWLO	40,179	208	8,446,805	488,511
Total Statewide	54,001	$195	$10,587,270	$607,484



Upper Indian Creek Timber Sale. Photo by Dale Peters, Northwestern Land Office. Special guest appearance by Lily the dog.

FOREST IMPROVEMENT

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Use of these fees authorized by statute, includes disposal of logging slash, reforestation, access, road maintenance necessary for harvest operations, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest.

In FY 2019, DNRC collected $896,366 in Forest Improvement fees, as shown in Table 2. In addition to other Forest Improvement Program projects, DNRC planted 208,015 seedlings on 1,232 acres of state trust land, completed precommercial thinning treatments on 1,717 acres, and site preparation (brush piling and scarification for natural regeneration) on 661 acres in FY 2019.

Table 2
FOREST IMPROVEMENT FEES COLLECTED BY TRUST FY 2019

Trust	Amount
Common Schools	$670,421
Montana State University - Second Grant	14,337
Montana Tech	28,787
State Normal School	30,486
School for the Deaf and Blind	8,513
State Reform School	2,751
Public Buildings	141,071
Total	**$896,366**

Photo by Jon Hayes, Southwestern Land Office, Missoula

MINERALS MANAGEMENT BUREAU

The Minerals Management Bureau is responsible for leasing, permitting, and managing approximately 1,414 oil and gas, metalliferous and nonmetalliferous minerals, coal, and sand and gravel agreements on more than 557,000 acres of the available 6.2 million acres of school trust land and approximately 11,885 acres of other state-owned land throughout Montana.

OIL & GAS ACTIVITY

In FY 2019, the bureau managed 1,298 total leases, 611 of which are currently productive. Compared to FY 2018, the total number of leases issued is down 12.7%, along with producing leases, which decreased by 7.6%. With the average gas and oil prices remaining fairly constant, speculation associated with the Bakken and other formations decreased, leading to leases being released.

FY 2019 royalty revenues totaled $10,408,310, up 7.75% from FY 2018 due to a slight increase in oil prices and the drilling of some new wells. Rentals, non-drilling penalties, and bonus revenues totaled $2,208,226, down 29.02% compared to FY 2018. This decrease was driven by a combination of cancelled or terminated leases and a decrease in bonus revenue from quarterly lease sales. See Figure 3 for a summary of revenues. Oil and gas production from state lands is summarized in Table 3. Figure 4 shows the FY 2019 mineral revenue by type and percentage.

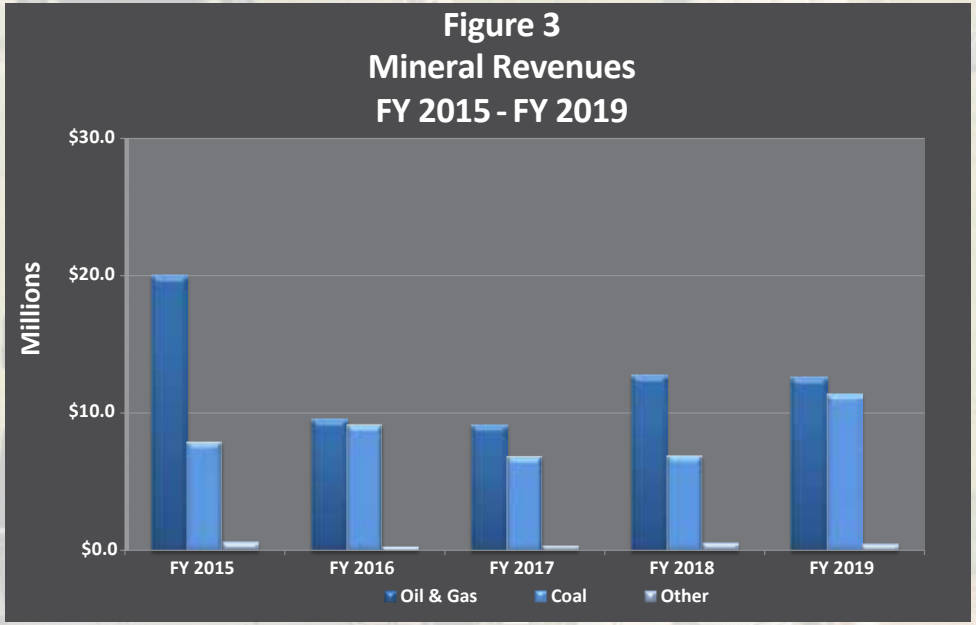
COAL ACTIVITY

In FY 2019, the bureau managed 31 total leases, 6 of which are currently productive. Coal lease counts decrease by 4 between 2018 and 2019. Royalty revenues totaled $11,370,152 which was a 66.42% increase from FY 2018. Rental revenues totaled $38,317. Coal production from state lands is summarized in Table 3.

Table 3
MINERAL PRODUCTION

	FY 2018	FY 2019	% Change	Five-Year Average
Oil (barrels)	1,170,328	1,224,902	4.7%	1,314,769
Gas (mcf*)	3,077,568	2,353,164	-23.5%	2,834,854
Coal (tons)	4,591,232	6,294,235	37.1%	4,772,818

*mcf=thousand cubic feet



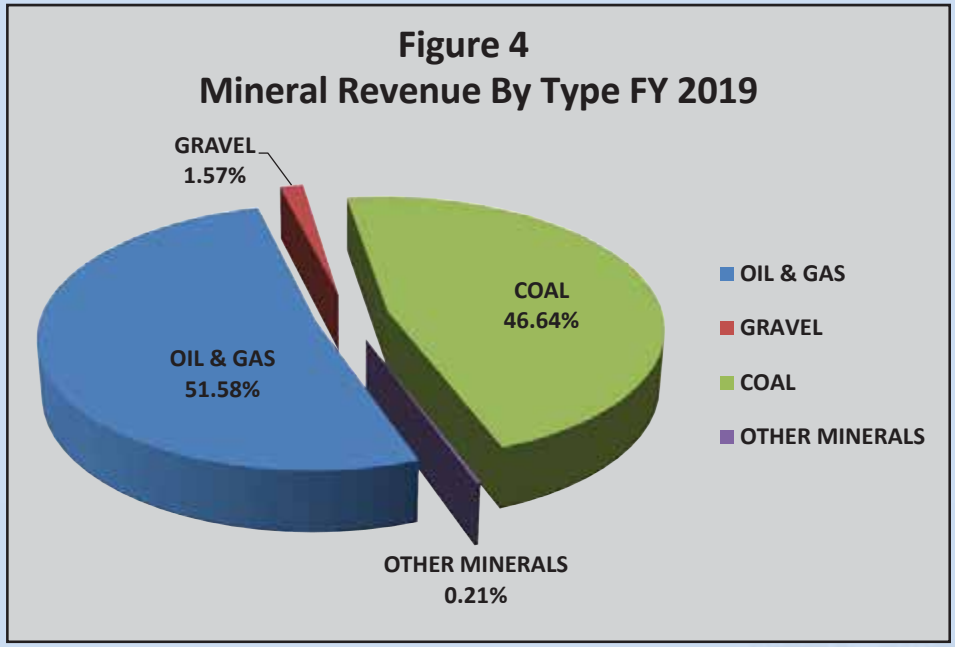
Sheridan County Pump Jack – Photo by John Reddy

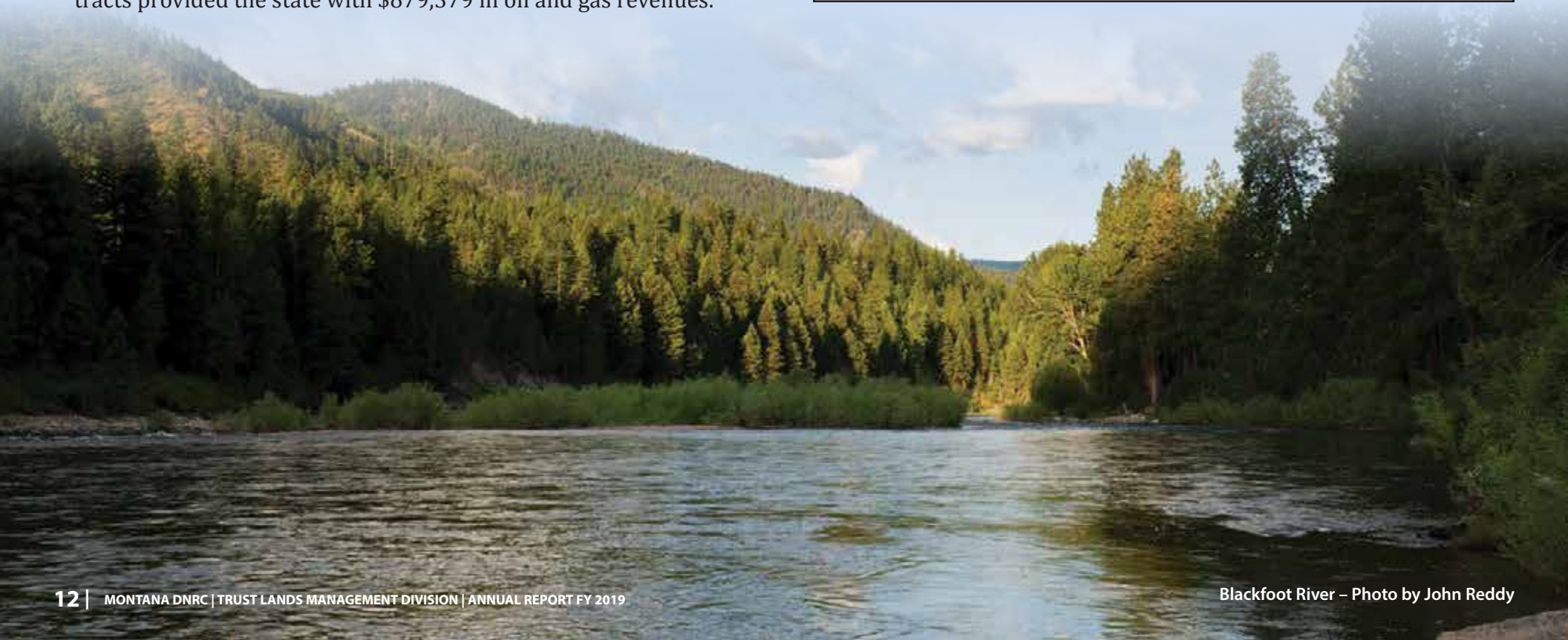
OTHER MINERALS

The bureau also issues land use licenses and leases for gravel and other minerals. In FY 2019, gravel revenues totaled $383,565, which is an 30.67 % decrease from FY 2018. Revenues for all other mineral activities totaled $52,146.

RIVERBED LEASING

On navigable waterways in Montana, the state owns those lands below the low-water mark; islands and their accretions formed in riverbeds after statehood; and certain abandoned channels formed by avulsion. The bureau continues its efforts to clarify title to the riverbeds and islands of navigable rivers. Because two navigable rivers in Montana flow through areas with major oil and gas resources, DNRC has conducted numerous riverbed studies to determine and document state ownership in those areas. Studies are also required in urban and developing areas. In FY 2019, the program managed 9,611 acres of leased riverbed and island tracts. These tracts provided the state with $879,379 in oil and gas revenues.

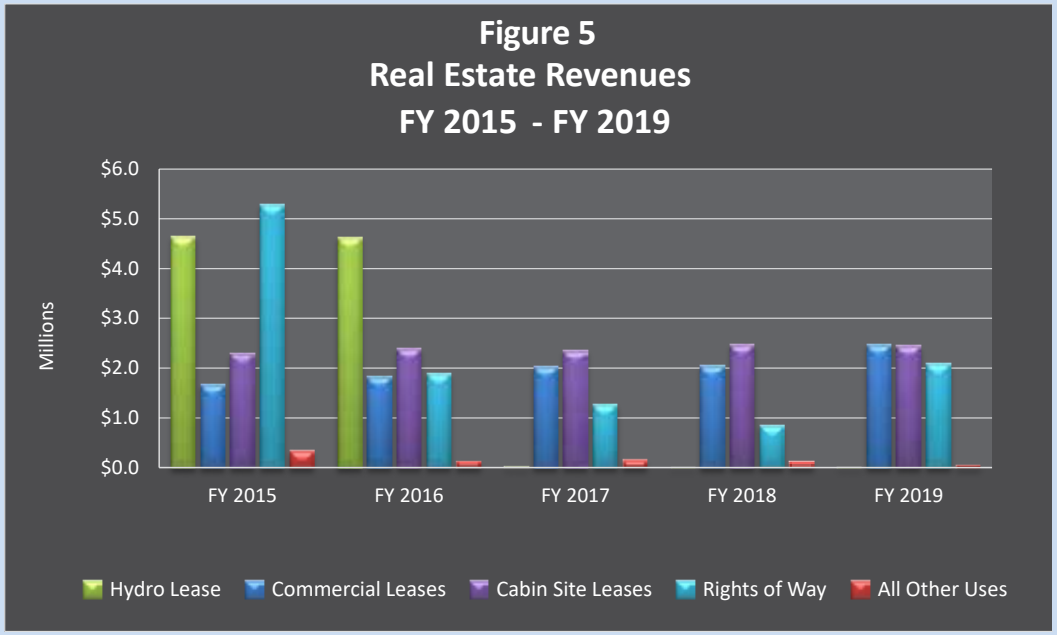


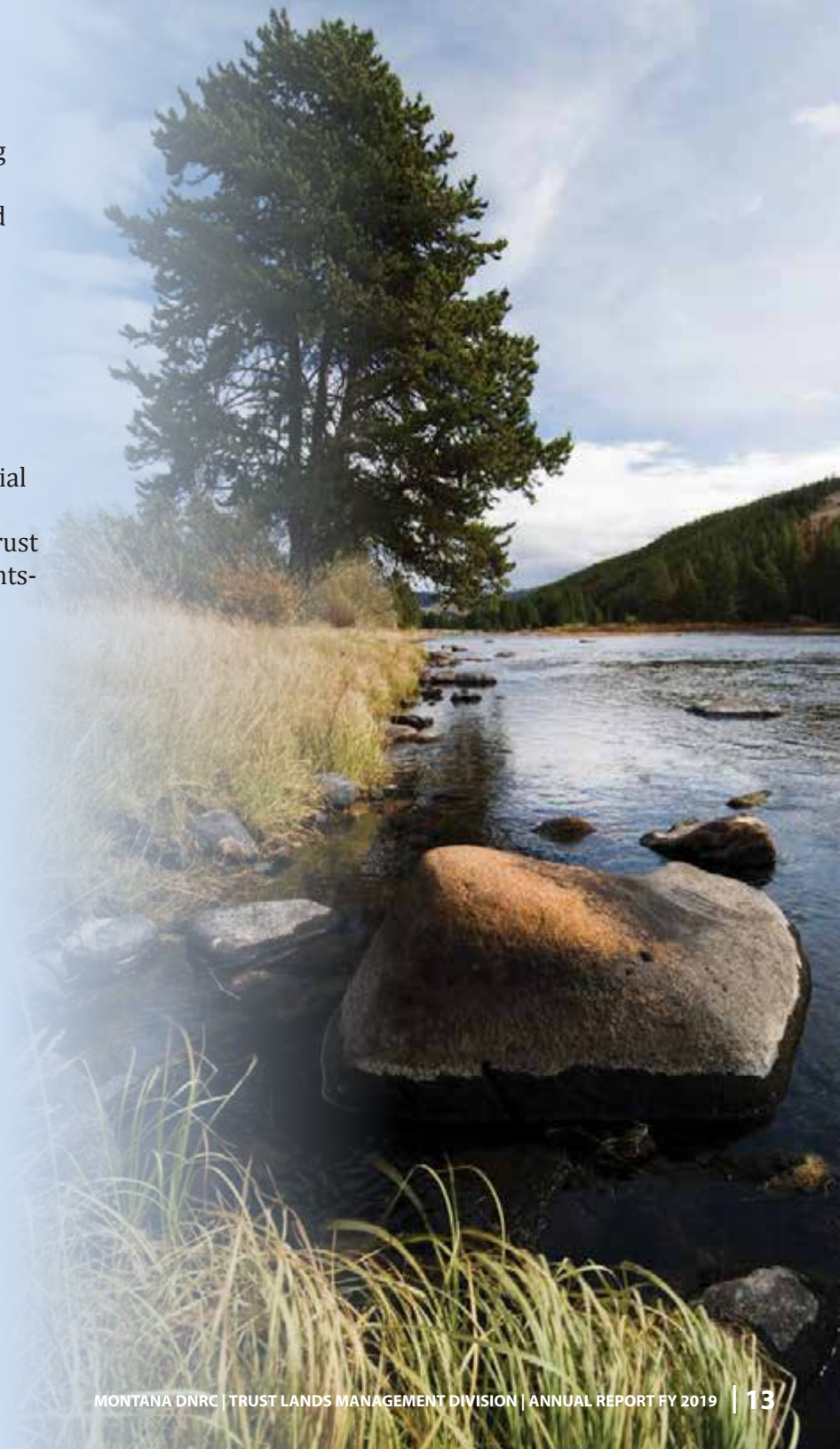


Blackfoot River – Photo by John Reddy

REAL ESTATE MANAGEMENT BUREAU

The Real Estate Management Bureau administers a diverse set of programs involving land acquisitions, and dispositions, land exchanges to improve the trust land base, rights-of- way and access transactions, as well as, commercial and residential ground leases. Licenses for secondary more short-term activities are also managed by the bureau. Fee title land transactions greatly improve the land base and management diversity through land consolidation, legal access, and greater revenue generating capacity for the trusts served by the department. The real estate bureau contributes annual distributable revenue through commercial and residential leasing. A new and exciting prospect for commercial revenue through large-scale renewable energy developments has increased significantly over the last year in Montana and many western states, with many companies looking to Montana's eastern plains for potential wind and solar renewable energy expansion. Many factors are driving the recent peaked interest in Montana's eastern counties and the bureau has positioned state trust lands to be responsive and competitive for this demand. Income generated from rights-of-way grants and easements are deposited into the permanent fund and assigned to specific trusts. The bureau also assists other state agencies with the management of non-trust state land assets and records management. Figure 5 shows real estate revenues from FY 2015 to FY 2019.





Deer Lodge County – Photo by John Reddy

Table 4 LAND AND CABIN SITES SOLD BY TRUST FY 2019						
Trust	**Program**	**Acres**	**Sales Price**	**# of Parcels**	**Average Three-Year Income**	**Return**
Common Schools	Land	200.00	$253,000	3	$1,385	1.28%
Public Buildings	Land	40.00	26,000	1	598	2.30
Total Land Sales		**240.00**	**$279,000**	**4**	**$1,188**	**1.54%**
Trust	**Program**	**Acres**	**Sales Price**	**# of Parcels**	**Average Three-Year Income**	**Return**
MSU - 2nd Grant	Cabin Site	33.63	$1,909,000	19	$4,850	7.91%
Common Schools	Cabin Site	68.08	2,404,125	21	4,293	4.19
Public Buildings	Cabin Site	3.10	78,000	2	898	2.12
Montana Tech	Cabin Site	2.69	740,000	3	6,440	5.68
Pine Hills School	Cabin Site	4.68	23,000	1	645	2.80
Total Cabin Sites		**112.18**	**$5,154,125**	**46**	**$4,436**	**5.46%**

Table 5 LAND PURCHASED BY TRUST FY 2019			
Name	**Trust**	**Acres**	**Purchase Price**
Stillwater Lazy Creek II	Common Schools	3,200.00	$1,722,464
Stillwater Swift Creek III	Common Schools	3,180.08	0 – Donation
Total Land Sales		**6,380.08**	**$1,722,464**

Table 6 LAND ACQUIRED THROUGH LAND EXCHANGE BY TRUST FY 2019			
Name	**Trust**	**Net Acres Gained**	**Net Land Value Gained**
Gallatin County Landfill	Common Schools & University of Montana	(16.10)	$61,000
Vermiculite Mountain	Common Schools	599.43	840,000
Total Land Acquired		**583.33**	**$901,000**

LAND SALES, ACQUISITIONS, AND EXCHANGES

In FY 2019, the Land Banking and Cabin Site Sale Program sold 352.18 acres for a total sales price of $5,433,125. Table 4 shows the acres sold by the trust, average income, and rate of return. Table 5 shows the land purchased during the year. Table 6 shows the land acquired through two land exchanges that occurred in FY 2019.

Purchasing Stillwater Lazy Creek II and the donation of Swift Creek in FY 2019 was the final steps of three phase acquisition which added nearly 13,400 acres in Montana's Stillwater State Forest.

In Gallatin County, the bureau exchanged a state section encumbered by the county's Logan Landfill for a neighboring county parcel. This exchange provided access to another state trust section and created a four-section block of state lands. Through the Vermiculite Mountain Land Exchange, the bureau exchanged a section within the Libby Superfund Site OU3 for two sections that consolidated a block of state trust lands totaling 2,945 acres.

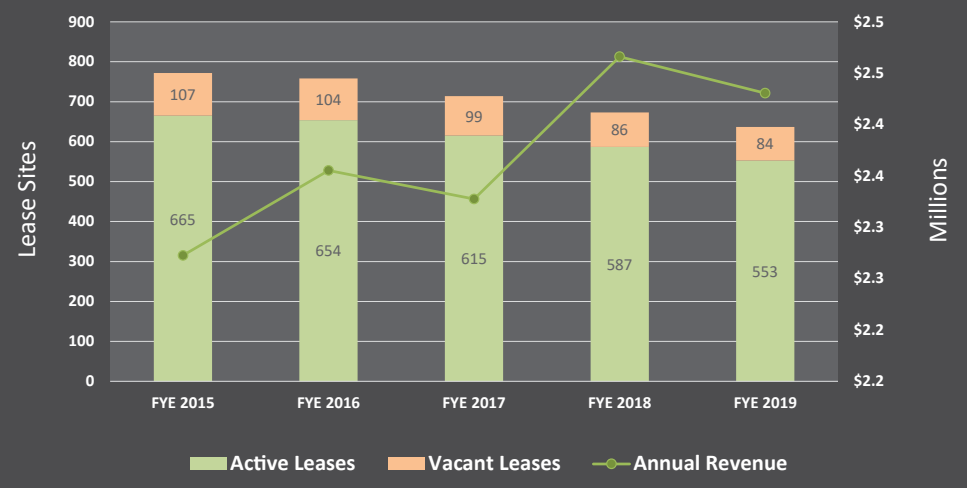
The Lands Section sales continue to increase with more than 30 land banking sales and nearly 80 cabin site sales currently in progress.

Stillwater State Forest Lazy Swift Acquisition Celebration – Photo by Dave Ring, Northwestern Land Office

RESIDENTIAL LEASING

In FY 2019, two rounds of bidding yielded six bids and ultimately resulted in 4 new cabin site leases. This bidding activity represents 8.5% of the available vacant leases, and the average bid rate was 4.3% of the land value. Over the year, 84 new leases were executed, including the renewal of 80 existing leases. The cabin site lease vacancy rate at the end of FY 2019 was 13.32%, largely due to sales of active lease sites from the inventory. Figure 6 shows residential lease inventory and revenues from FY 2015 – FY 2019.

Figure 6
Residential Lease Inventory and Revenue



Seeley Lake Cabin Site – Photo by Renee Kelley , Real Estate Management Bureau

COMMERCIAL LEASING

In FY 2019, the bureau executed 5 new commercial development leases and one new lease option that together generated $186,354 in revenue (see Table 7).

At the end of FY 2019, there were 7 active commercial lease options and 128 active commercial leases on trust land, which includes all leases that are not agriculture, grazing, or residential in nature. Hydro-electric leases generated $4.98 million in revenue, which are normally distributable, however, these funds ($14.4 million to date) are currently held in escrow pending a court challenge by Avista Corporation over state river bed ownership.

Table 7
FY 2019 NEW LEASES

Name	Location	Acres	Annual Base Rent	
Swank Enterprises	Section 36 - Kalispell	25.50	$117,300	*Converted from Lease Option*
Frontier Village LLC	Section 36 –Kalispell	8.30	17,222	*Converted from Lease Option*
Blackridge Companies LLC	Lewis and Clark – Bozeman	3.01	26,789	*Converted from Lease Option*
NW MT Veterans Stand Down and Food Pantry	Camp Ponderosa Swan Forest	79.60	18,800	
City of Missoula Public Works Dept.	University Hill Missoula	0.60	4,923	
Total New Leases		**117.10**	**$185,034**	

FY 2019 NEW LEASE OPTION

Name	Location	Acres	Annual Option Fee	Annual Base Rent Upon Lease (hypothetical)
TransCanada Keystone Pipeline LP	Philips County	11.99	1,500	15,000
Total New Options		**11.99**	**$1,500**	**$15,000**

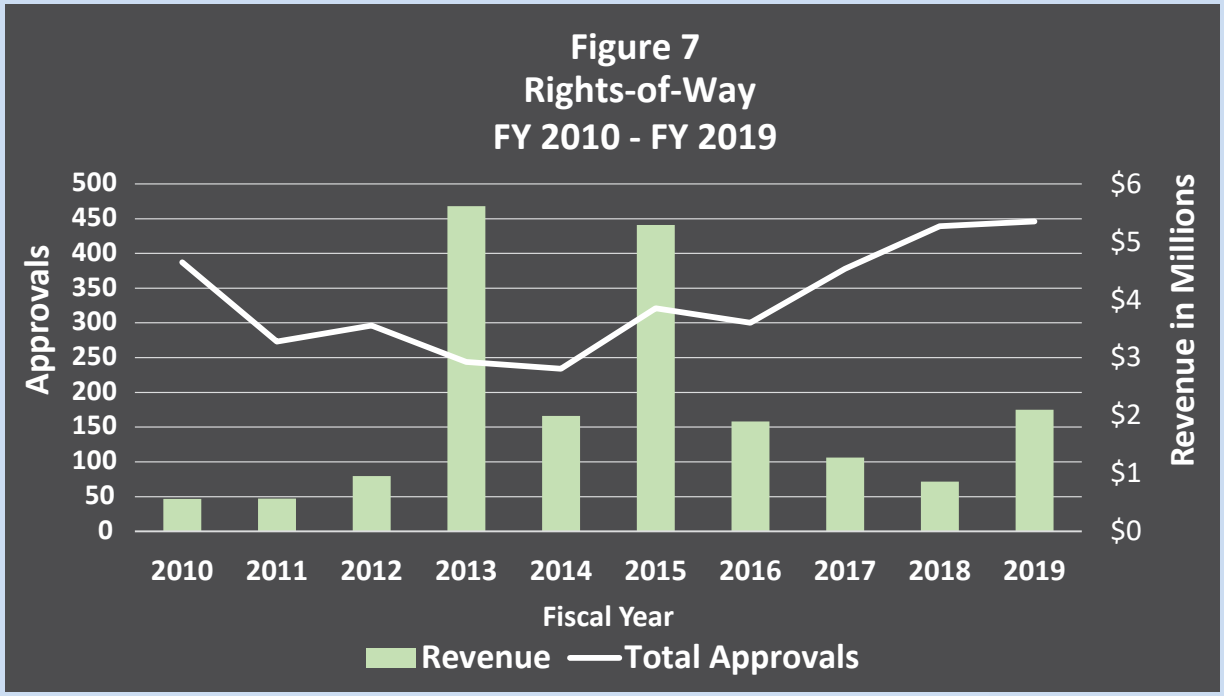
(left) Spring Prairie IV – Photo by Anne Moran, Northwestern Land Office
(right) Springhill Suites – Photo by Anne Moran, Northwestern Land Office

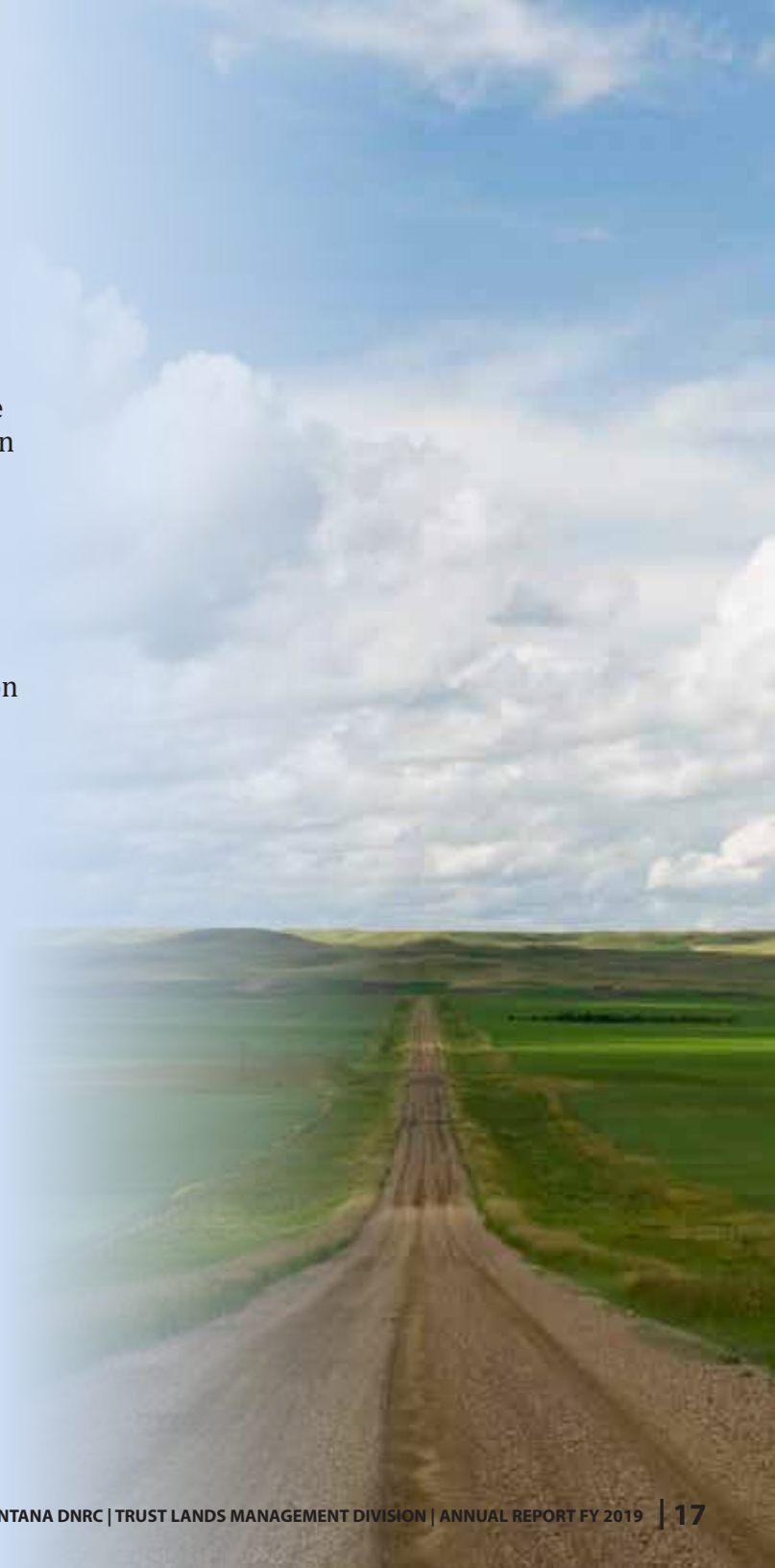
RIGHTS-OF-WAY/EASEMENTS

In FY 2019, the bureau processed and brought 449 Rights-of-Way (ROW) applications to the Land Board for approval. Northwestern Energy continued submission of applications under the historic rights-of-way statutory authority to legitimize existing electrical and natural gas facilities encroaching on state trust lands. In addition, the bureau began work with Flathead Electric regarding their encroachments. Both entities will finish the historic rights-of-way process in FY 2020. Staff within Trust Lands Management Division continue to work with county governments in regard to county road encroachments.

Revenue for FY 2019 increased over FY 2018 to near the five-year average, bringing in $2,102,621 to the various trusts. Easements which produced above-average revenue include several highway projects, a county road encroachment in Kalispell and oil and gas pipelines in and near the Bakken formation.

The section continues to work on cost share and reciprocal easement exchange packages and has actively engaged in negotiation of direct easement acquisitions to support land management activities. During FY 2019 additional projects were initiated with the US Forest Service and staff continues to work with Weyerhaeuser Company to identify potential projects. Rights-of-way staff completed two reciprocal acquisitions and an easement exchange and accepted an assignment of a public road from the US Forest Service in the Dillon area in FY 2019. Figure 7 shows rights-of-way activity over the last ten years.



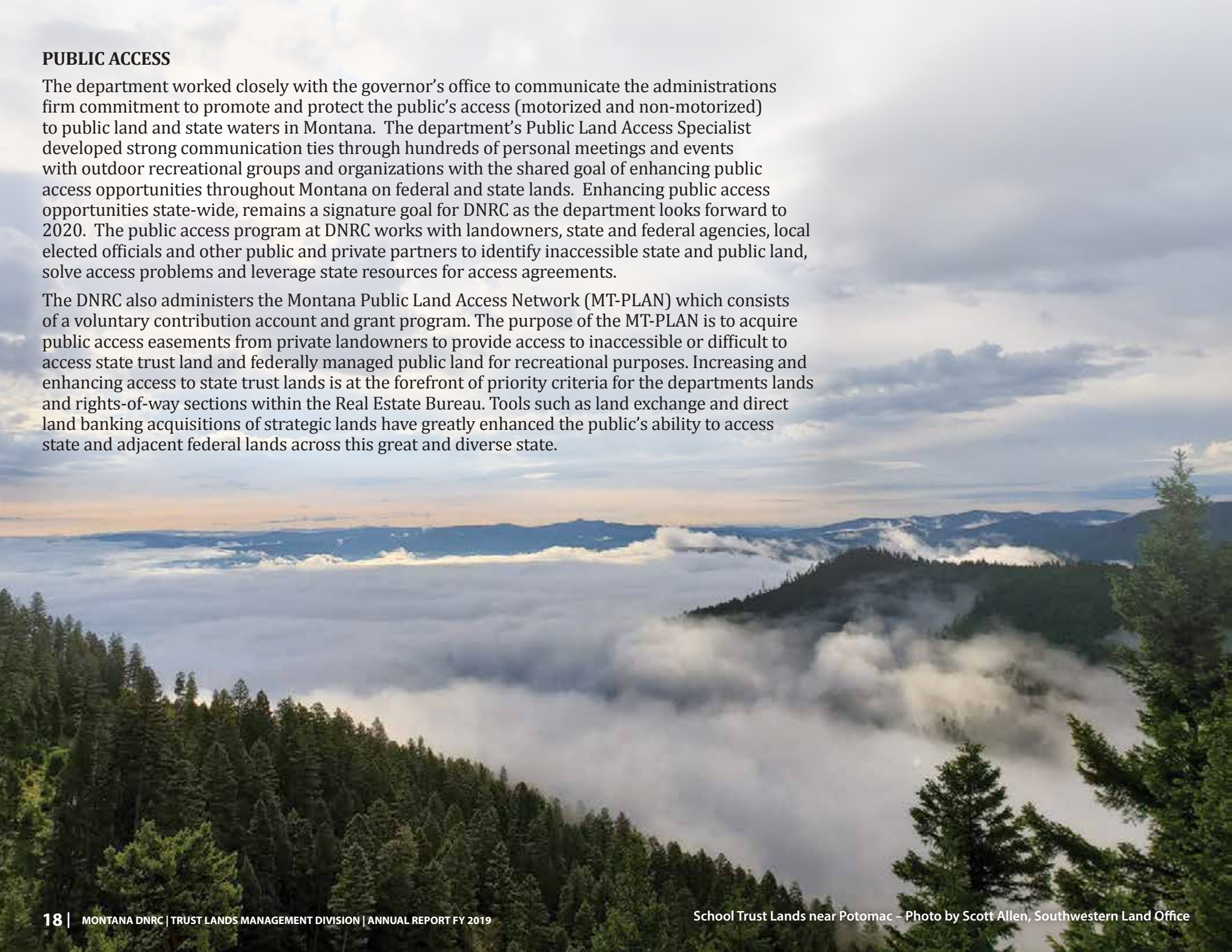


Valley County – Photo by John Reddy

PUBLIC ACCESS

The department worked closely with the governor's office to communicate the administrations firm commitment to promote and protect the public's access (motorized and non-motorized) to public land and state waters in Montana. The department's Public Land Access Specialist developed strong communication ties through hundreds of personal meetings and events with outdoor recreational groups and organizations with the shared goal of enhancing public access opportunities throughout Montana on federal and state lands. Enhancing public access opportunities state-wide, remains a signature goal for DNRC as the department looks forward to 2020. The public access program at DNRC works with landowners, state and federal agencies, local elected officials and other public and private partners to identify inaccessible state and public land, solve access problems and leverage state resources for access agreements.

The DNRC also administers the Montana Public Land Access Network (MT-PLAN) which consists of a voluntary contribution account and grant program. The purpose of the MT-PLAN is to acquire public access easements from private landowners to provide access to inaccessible or difficult to access state trust land and federally managed public land for recreational purposes. Increasing and enhancing access to state trust lands is at the forefront of priority criteria for the departments lands and rights-of-way sections within the Real Estate Bureau. Tools such as land exchange and direct land banking acquisitions of strategic lands have greatly enhanced the public's ability to access state and adjacent federal lands across this great and diverse state.

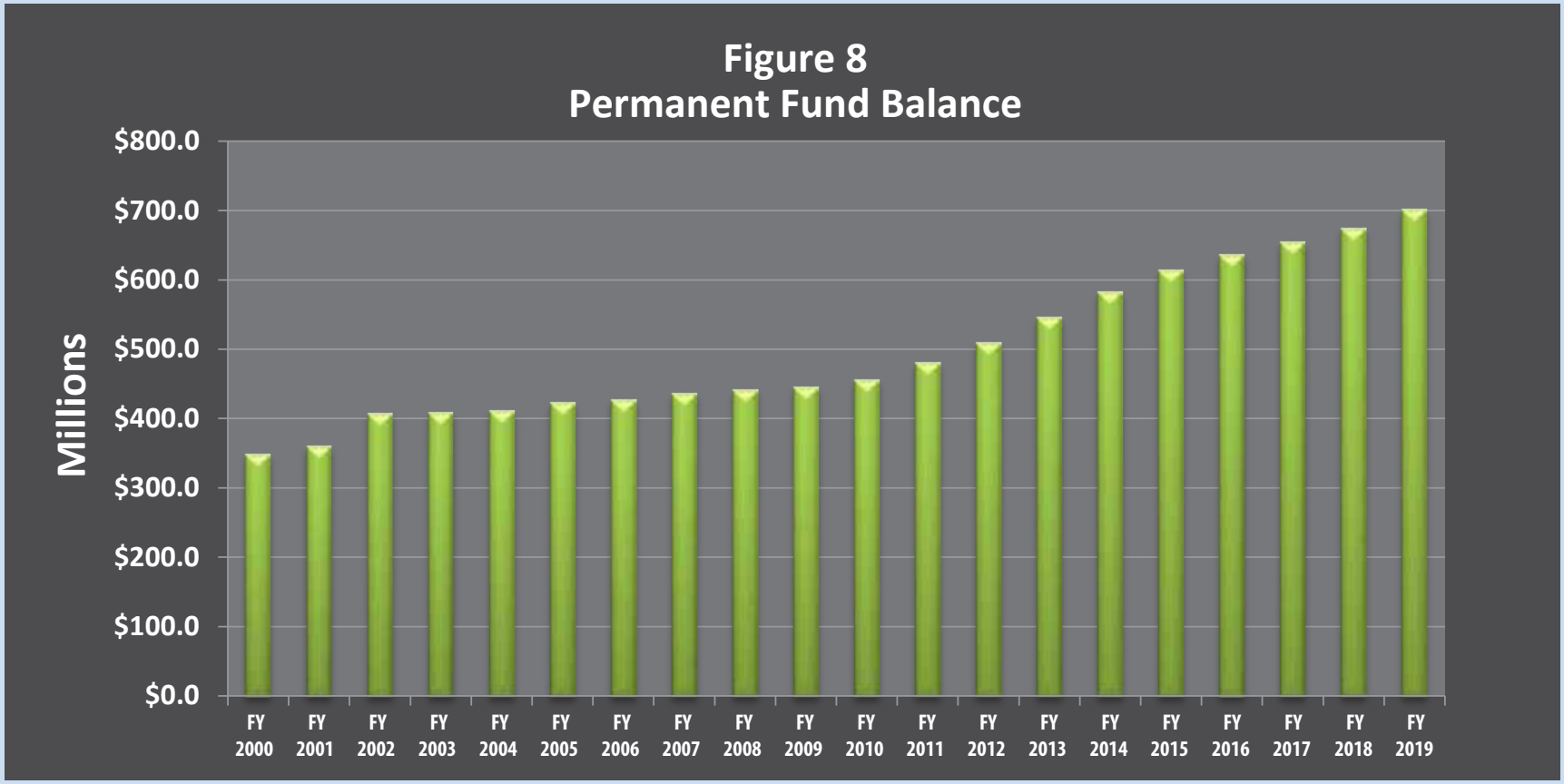


School Trust Lands near Potomac – Photo by Scott Allen, Southwestern Land Office

FINANCIAL HIGHLIGHTS

THE PERMANENT FUND

Under the Enabling Act proceeds from the sale and permanent disposition of any of the trust lands, or part thereof, shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the state of Montana against loss or diversion. These funds are often referred to as "non-distributable." Figure 8 shows the Permanent Fund balance over the last 20 years. The balance of the Permanent Fund was $702,075,759 for FY 2019.



*The 2001 Legislature passed Senate Bill 495, which authorized the department to obtain a loan from the Coal Severance Tax Trust Fund and purchase mineral production rights from the Common Schools Trust. The loan amount of $46.4 million was deposited into the Common Schools Permanent Fund in lieu of future mineral royalties in FY 2002. The loan was repaid during FY 2010, at which time the mineral royalties were deposited into the permanent fund once again.

REVENUES

Figure 9 details the Net Revenue Distributions for the combined trusts over the last 10 years. It should be noted that in FY 2010, the mineral royalties identified in Senate Bill 495 were no longer distributable, but placed in the permanent fund. Also in FY 2010, a one-time only bonus payment of $85.9 million was received on the Otter Creek coal tracts on behalf of the Common Schools.

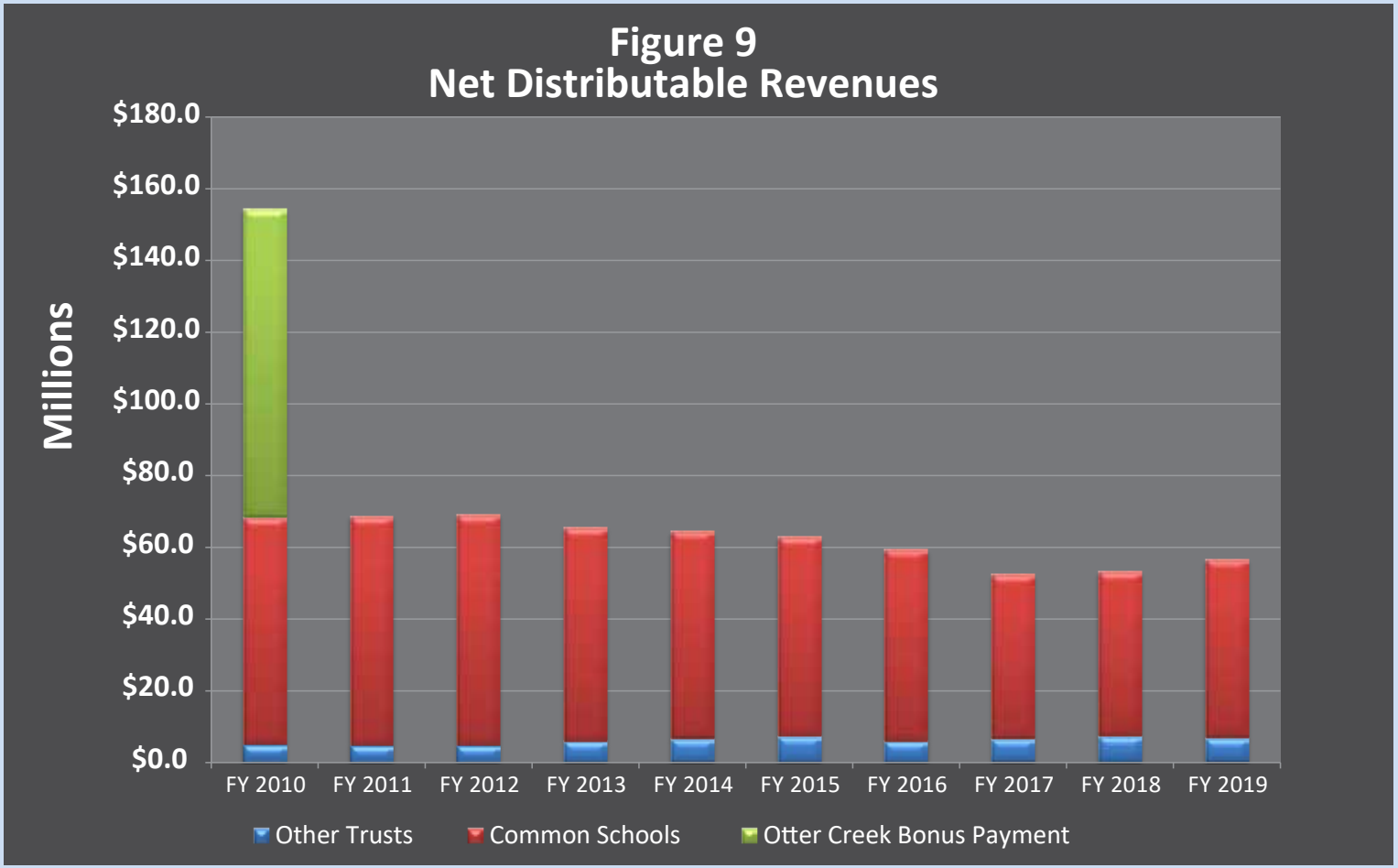


Table 8 shows the gross distributable and non-distributable interest and income proceeds for each of the trust beneficiaries for FY 2019. A small portion of trust revenues are used to fund administrative appropriations through the Trust Administration Account.

Table 8
REVENUES BY TRUST FY 2019*

Distributable Revenue Trust	Gross Distributable Revenues	Trust Earnings Reserves	Trust Admin Account [2]	Net Distributable Revenues	Distributed to School Facility & Technology Acct[5]
Common Schools [3] [4] [5]	$57,594,906	$1,000,000	$10,614,686	$45,980,220	$3,682,456
Public Land Trust – Navigable Rivers [3] [5]	426,512	0	383,217	0	43,295
The University of Montana	282,930	(14,561)	56,668	240,823	0
MSU - Morrill Grant [1]	624,044	0	0	624,044	0
MSU - Second Grant	1,656,597	(241,798)	503,483	1,394,912	0
Montana Tech	1,738,516	72,351	287,609	1,378,556	0
State Normal School	1,104,697	0	254,597	850,100	0
School for the Deaf and Blind	453,470	(42,835)	182,206	314,099	0
State Reform School	594,482	4,626	203,617	386,239	0
Veterans Home	15,945	0	5,296	10,649	0
Public Buildings	2,657,980	0	1,057,327	1,600,653	0
MT Developmental Center	6,599	777	179	5,643	0
MT State Hospital	6,599	776	180	5,643	0
Lands Acquired - Public School [3] [5]	25,147	0	17,453	0	7,694
Total	**$67,188,424**	**$779,336**	**$13,566,518**	**$52,791,581**	**$3,733,445**

Nondistributable Revenue Trust	Gross Nondistributable Revenues	Net Nondistributable Revenues	Permanent Fund Balance
Common Schools - permanent	$25,725,624	$25,725,624	$646,627,119
Public Land Trust – Navigable Rivers	1,004,369	1,004,369	10,916,068
The University of Montana	6,351	6,351	1,631,159
MSU - Morrill Grant [1]	6,557	6,557	5,405,775
MSU - Second Grant	25,560	25,560	12,557,850
Montana Tech	75,563	75,563	7,155,127
State Normal School	89,548	89,548	6,607,933
School for the Deaf and Blind	102,487	102,487	5,913,679
State Reform School	53,043	53,043	5,189,800
Veterans Home	0	0	45,473
Lands Acquired - Public School	405	405	25,776
Total	**$27,089,507**	**$27,089,507**	**$702,075,759**

* Trust balances reflect deposit activity by DNRC and do not include valuation adjustments from investment activities by the Board of Investments.

[1] MSU-Morrill Grant administrative costs were transferred to the appropriation from fund 02297 per House Bill 19.

[2] Trust Land Administration Account reflects the FY 2019 actual expenditures and accruals by trust.

[3] Less 5% to permanent fund.

[4] Org 59 STIP and Trust & Legacy Revenue.

[5] School Facility and Technology Fund (77-1-218, MCA).

SCHOOL FACILITY AND TECHNOLOGY ACCOUNT

The School Facility and Technology Account is managed by the Department of Commerce. This account contains certain revenues from the sale of timber on Common Schools' land, as defined in 20-9-516, MCA, revenues from activities on the Lands Acquired Trust, and Public Land Trust – Navigable Rivers. TLMD generated $3,733,445 for the year, including revenue of $3,682,456 from the sale of timber on Common Schools' land (in excess of 18 million board feet (mmbf), $43,295 from hydro lease revenue on the Public Land Trust, and $7,694 from grazing leases, timber sales, commercial licenses and recreational use on the Lands Acquired Trust in the Potomac area.

SUMMARY – GROSS REVENUES

In addition to management activities on behalf of trust beneficiaries, the Trust Land Management Division generated other revenues and distributions in FY 2019. The five-year summary presented in Table 9 shows gross revenues of more than $99 million for all division activities. This table contains not only trust revenues, but also those revenues collected for other state entities, the General Fund, revenues generated to fund appropriations, and other miscellaneous revenues.

Timber harvest – Photo by Dustin Lenz, Northeastern land Office

Table 9
FIVE-YEAR SUMMARY OF GROSS REVENUE GENERATED BY ACTIVITY

Activity	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Agriculture & Grazing Management					
Grazing Leases	$14,486,097	$19,462,841	$14,174,423	$11,427,352	$13,499,087
Agriculture Leases	14,408,796	12,467,630	13,735,506	14,821,916	16,777,948
Totals	**28,894,893**	**31,930,471**	**27,909,929**	**26,249,268**	**30,277,035**
Recreational Use					
General Licenses	72,361	89,526	87,800	88,652	149,856
Conservation Licenses	997,112	990,186	993,414	940,904	999,938
Special Recreation Use Licenses	163,629	153,513	157,591	143,055	191,600
Totals	**1,233,102**	**1,233,225**	**1,238,805**	**1,172,611**	**1,341,394**
Forest Management					
Timber Sales	10,781,916	7,317,120	9,683,017	9,601,084	9,598,881
Forest Improvement Fees	1,168,199	1,249,331	1,275,232	1,084,043	896,366
Totals	**11,950,115**	**8,566,451**	**10,958,249**	**10,685,127**	**10,495,247**
Minerals Management					
Oil & Gas Revenues					
Rentals/Bonuses/Penalties	5,159,942	1,614,519	1,649,392	3,110,997	2,208,226
Royalties	14,868,183	7,968,489	7,486,741	9,659,886	10,408,310
Seismic Exploration	0	0	0	1,217	1,016
Aggregate Minerals					
Rentals/Bonuses	800	0	400	0	600
Royalties	504,535	251,163	291,048	553,265	382,965
Coal					
Rentals/bonuses	53,355	49,535	45,696	59,075	38,317
Royalties	7,862,948	9,124,779	6,801,760	6,832,266	11,370,152
Other Minerals					
Rentals/Penalties	79,233	21,214	16,692	37,068	12,043
Royalties	24,594	11,309	12,082	1,020	40,103
Totals	**28,553,590**	**19,041,008**	**16,303,811**	**20,254,794**	**24,461,732**
Real Estate Management					
Rights-of-way/Easements	5,289,876	1,895,210	1,272,013	857,646	2,102,621
Residential Leases/Licenses	2,290,410	2,393,963	2,356,628	2,488,304	2,452,520
Other Leases/Licenses					
Commercial	1,682,656	1,842,357	2,029,069	2,051,577	2,489,005
Conservation	97,148	97,410	97,751	97,922	18,204
Other	257,085	40,966	61,298	20,121	31,591
Hydro Leases/Navigable Rivers	4,647,101	4,639,418	19,841	13,244	16,137
Totals	**14,264,276**	**10,909,324**	**5,836,600**	**5,528,814**	**7,110,078**
Other					
Trust and Legacy Interest	24,048,099	23,904,622	23,631,102	22,961,850	24,324,125
Other Revenues	159,117	262,502	359,721	628,149	1,198,900
Totals	**24,207,216**	**24,167,124**	**23,990,823**	**23,589,999**	**25,523,025**
TOTALS	**$109,103,192**	**$95,847,603**	**$86,238,217**	**$87,480,613**	**$99,208,511**

REVENUE DISTRIBUTION - COMMON SCHOOLS, UNIVERSITIES, AND OTHER TRUSTS

The distribution of revenues generated from Common Schools trust land is illustrated in Figure 10. From the distributable receipts, a small percentage is used to fund the Trust Administration Account (see Table 8). Ninety-five percent of the remaining distributable revenue is distributed yearly to the state Guarantee Account for use by public schools of the state. The Permanent Fund comprises the other 5 percent, together with nondistributable revenue. The interest earned on the Permanent Fund is also distributed to the Guarantee Account for use by public schools, with the exception of 5 percent, which is returned to the Permanent Fund for reinvestment.

Distribution of revenues to the university trusts and other trusts is similar to that of the Common Schools trust. The exception is the MSU-Morrill Grant, whose administrative costs are funded by the General Fund (House Bill 19, 2007 legislature). For the University System trusts, timber sale revenues are considered distributable. The Public Buildings trust does not have a permanent fund; therefore, remaining receipts are distributed to the Department of Administration.

In addition to state trust land, the division manages some land for other agencies. Revenue generated from other agency land is transferred directly to the appropriate state agency.

Figure 10
Distribution of Revenues Common Schools Trust Land FY 2019

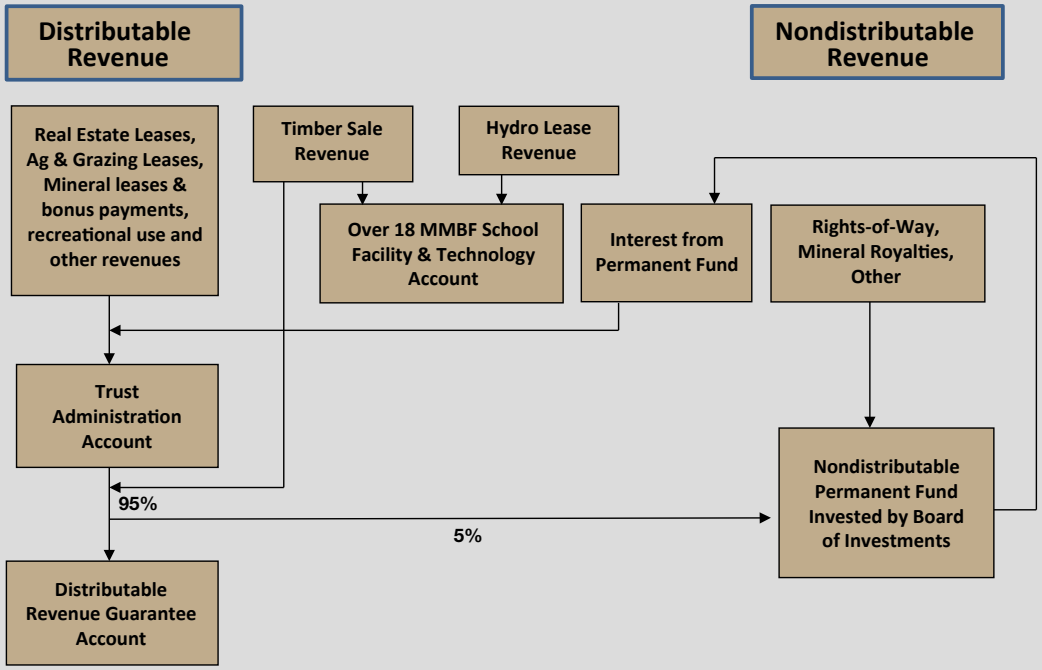


Table 10
ACRES BY TRUST

Trust	Surface Acres*	Mineral Acres*
Common Schools	4,644,876	5,600,431
University of Montana	17,248	33,754
MSU - Morrill Grant	63,474	77,929
MSU - Second Grant	31,811	46,598
Montana Tech	63,447	86,267
State Normal School	63,572	80,455
School for the Deaf and Blind	36,461	41,171
State Reform School	67,663	73,488
Veterans Home	1,417	1,276
Public Buildings	185,572	172,323
Acquired Lands	32,295	0
Public Land Trust – Navigable Rivers	4,463	20,387
Sir Trust**	2,600	0
Total	**5,214,899**	**6,234,079**

* TLMS Acreage Query as of 8/26/2019. Mineral acres are based on Oil & Gas acres

** Sir Trust is split equally between the School for the Deaf & Blind, the Montana Developmental Center, and the Montana State Hospital

Beaverhead County – Photo by John Reddy

Montana State Trust Lands Return on Assets FY 2019

This *Return on Assets Report* is an annual publication from the Trust Lands Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC) detailing the earnings and business trends of state trust land and mineral management. This edition of the *Return on Assets Report* covers fiscal year 2019 (FY 2019), which began July 1, 2018 and ended June 30, 2019.

The *Return on Assets Report* is three sections which examine market conditions affecting trust revenues; return on assets for each trust; and land management program performance, including classified forest lands returns as required by law, see (MCA 77-1-223) and (MCA 15-44-103).

The Return on Assets Report is made available with specific accounting limitations. This report is not an official income or cash flow statement. Asset values and returns are estimated based on the best available data, revenues and expenses may vary from those reported in DNRC's *Annual Report* due to the inclusion or exclusion of specific accounts. Returns reported are income returns which do not account for year-over-year changes in asset values. Finally, unless otherwise noted, dollar values throughout the report are expressed in nominal terms.

Treeline Center Development – Photo by Anne Moran, Northwestern Land Office

TABLE OF CONTENTS

Markets ..... **p. 28**
- **Figure 11.** Montana Forestry and Forest Product Private Employment
- **Figure 12.** National Housing Starts, 2010- 2019
- **Figure 13.** Montana Agriculture Production Value
- **Figure 14.** U.S. Cattle Prices Received
- **Figure 15.** Crude Oil Production and Prices, U.S. and Montana
- **Figure 16.** DNRC Minerals Management Oil Revenues and Market Price (FY 2011-2019)
- **Figure 17.** Montana Population and Housing Price Index, 2010-2018
- **Figure 18.** Montana Real Estate Rental and Construction Employment

State Trust Performance ..... **p. 33**
- **Figure 19.** Trust Lands Acreage and Gross Revenue by Land Class
- **Figure 20.** Trust Lands Acreage by Trust Ownership
- **Table 11.** Surface and Subsurface Estate Acres by Trust Ownership and Land Classification
- **Table 12.** Annual Montana Farm Real Estate Values (Acres and U.S. dollars reported by USDA NASS 2012-2019)
- **Table 13.** Average Trust Surface Asset Values by Area and Classification (U.S. dollars per acre estimated by DNRC FY 2019)
- **Table 14.** Total Average Surface Estate Assets by Trust and Classification (U.S. dollars estimated by DNRC FY 2019)
- **Table 15.** Net Revenues by Trust (U.S. dollars estimated by DNRC 2019)
- **Table 16.** Income Returns by Surface Lands Asset Class

Trust Lands Program Performance ..... **p. 39**
- **Table 17.** Trust Lands Total Program Revenues FY 2012 through FY 2019 (U.S. dollars reported by DNRC TLMD)
- **Figure 21.** Annual Revenues by Program, FY 2012 through FY 2019
- **Table 18.** Trust Lands Total Program Costs FY 2012 through FY 2019 (U.S. dollars reported by DNRC TLMD)
- **Figure 22.** Annual Costs by Program, FY 2012 through FY 2019
- **Table 19.** Trust Lands Program Net Operating Income FY 2012 through FY 2019 (U.S. dollars reported by DNRC TLMD)
- **Figure 23.** Annual Net Operating Income by Program, FY 2012 through FY 2019

MARKETS

Montana state trust lands are, principally, working lands. These lands are held in trust for the perpetual yield of revenues to support Montana's public education institutions. The majority of business transactions on school trust lands are the result of derived demand for land and resources in open markets. For example, grazing land must be leased by private ranching operations as part of their business operation to raise and sell livestock. Grazing land rental value is thus derived from and directly connected to the supply and demand for U.S. livestock. Changes in consumer preferences for beef (i.e. changes in the direct demand for beef) could affect the rental value and contracting opportunity on school trust lands.

Though most business generated by the school trust lands occurs in traditional industries (i.e. commercial forest products, livestock grazing, irrigated and dryland agriculture, energy and mineral resource development, and real estate development) there are a few alternative revenue streams generated from: recreation, ecosystem services and technology related industries. For both the traditional and emerging business revenue streams, future opportunities for revenue center around land use and depend on local, national and global economic conditions and market trends.

In this section, data on these related market trends associated with state trust land business are shared.

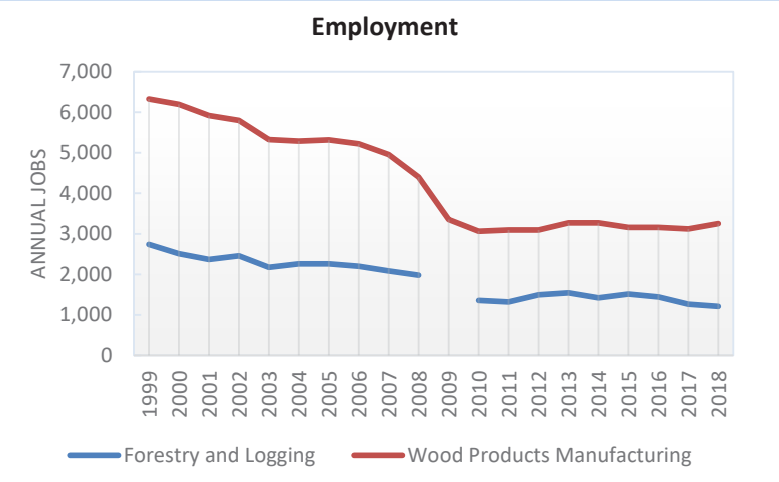
Photo by Dustin Lenz, Northeastern Land Office

TIMBER AND FOREST PRODUCTS

Indicators for timber and forest products industry health in Montana include private sector employment, forest product prices, and quantities of timber harvested and sold from various land ownerships. Demand for timber and subsequent timber contract prices are derived ultimately from consumer demand for lumber and other finished forest products.

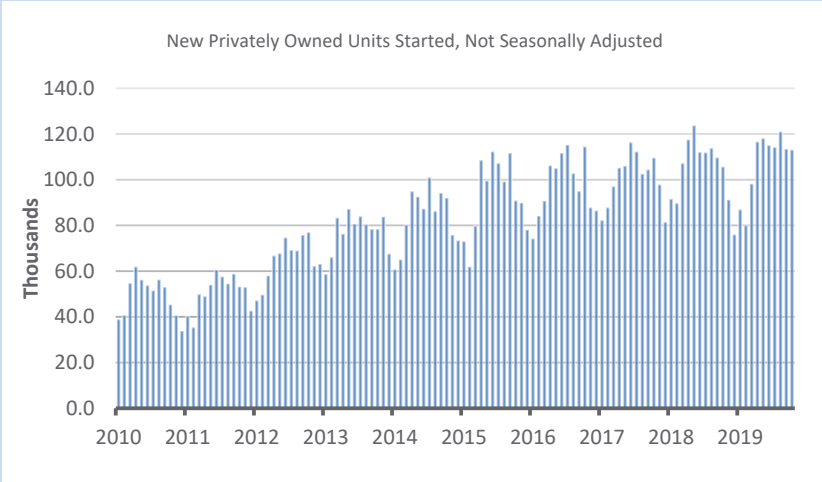
In Montana, where many rural economies are supported by logging services and forest products manufacturing, it's important to observe industry trends from a private employment perspective. **Figure 11** shows statewide industry employment trends with an approximate fifty percent decline in total employment from 1999 to 2018. From a historic perspective, sawmills, paper mills, and other forest products manufacturing has lost a tremendous amount of invested capital, due to a multitude of external reasons. Some of the impacts to the industry have included: local supply shortages, international trade agreements, and shocks to lumber prices resulting from financial sector securitization excess and the 2008-2012 mortgage crisis and housing recession. Forest products markets hit an upswing in the second half of FY 2018, as housing starts remained mostly steady (**Figure 12**) and supply chain backlogs created a competitive market.

Figure 11. Montana Forestry and Forest Product Private Employment



Source: U.S. Bureau of Economic Analysis

Figure 12. National Housing Starts, 2010- 2019, thousands



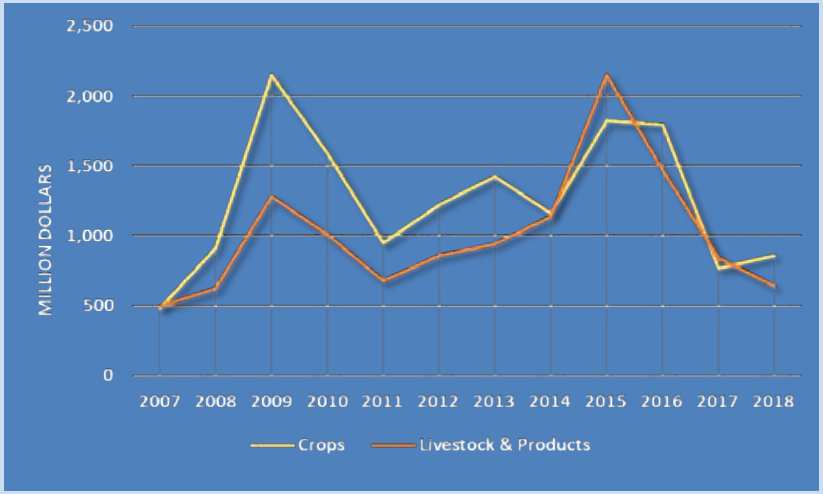
source: fred.stlouisfed.org

AGRICULTURE AND GRAZING

Indicators for agriculture and livestock grazing industry health in Montana include private sector employment, crop and livestock prices, farm production quantities, and gross farm sales. Demand for agriculture and range land and subsequent land lease prices are derived ultimately from consumer demand for crops, and food, including meat.

Montana's agriculture sector is vast and provides a high percentage of jobs in many rural communities across the state. Additionally, Montana's agriculture production is tracked by USDA, and other entities. For a quick look at industry trends, **Figure 13** shows inflation adjusted gross agriculture product across Montana. Sales have dropped in recent years but have not departed from historic variation. Trust Lands grazing revenues are linked to cattle prices, which dropped in mid-2017 but had stabilized into 2018 as shown in **Figure 14.** At the end of FY 2019, feeder markets are again dropping and are a source of concern for Montana operations.

Figure 13. Montana Agriculture Production Value
(2015 adjusted dollars)



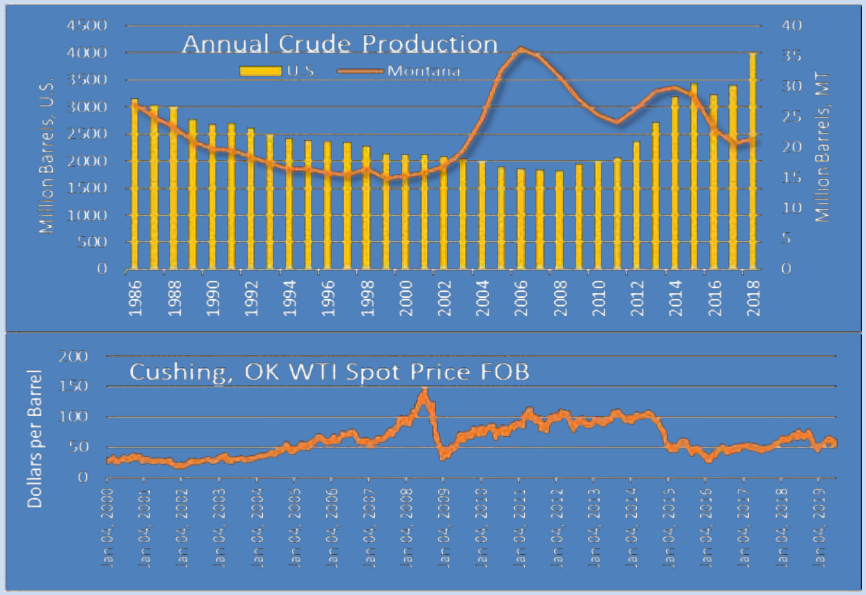
Source: www.nass.usda.gov

Figure 14. U.S. Cattle Prices Received

MINERALS

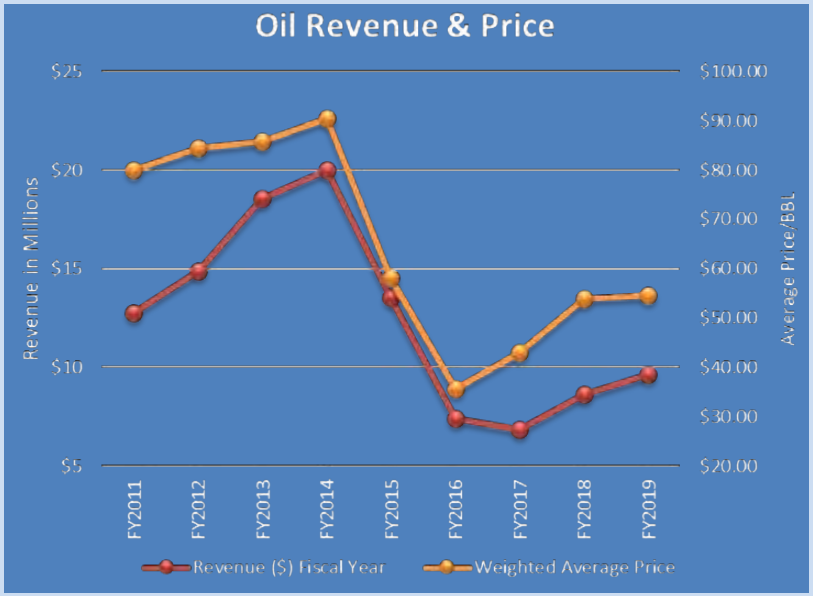
The Minerals Management Bureau is responsible for leasing, permitting and managing approximately 1,900 oil and gas, coal and other mineral agreements on nearly 760 thousand acres of the 6.2 million acres of school trust mineral rights throughout Montana. Most revenue generated by the Minerals Program comes from oil and coal markets. Oil production, and prices received, in Montana are driven by national oil markets as depicted in **Figure 15**. In **Figure 16**, the oil supply glut can be observed as sharply reduced prices and domestic production, which in turn impacted trust mineral revenues in fiscal years 2015 and 2016. Oil prices and revenues have partially recovered over the last three fiscal years, although prices have leveled somewhat. Oil royalties are the largest revenue source in the Minerals Program, followed by coal.

Figure 15. Crude Oil Production and Prices, U.S. and Montana



Source: https://www.eia.gov/petroleum/data.php

Figure 16. DNRC Minerals Management Oil Revenues and Market Price (FY 2011-2019)



REAL ESTATE

Less than one percent of statewide surface ownership is classified Other, designating properties under lease or development for real estate purposes. The primary categories of leasing revenue within the Real Estate Program are residential home site and cabin site leasing, and commercial leasing for a variety of purposes. Real estate lease revenues for residential or commercial use are driven by the value of Trust Land parcels, which tend to respond to trends in population and housing prices as shown in **Figure 17**, as well as other factors such as employment, consumer spending and business investment. Montana employment in Real Estate leasing and Building construction is illustrated in **Figure 18**. Revenues from Trust Lands real estate leasing activities grew again in FY 2019, as shown in **Figure 5** (page 13) of the FY 2019 Trust Lands Annual Report. While commercial and rights-of-way revenues show growth, Cabin Site Lease revenues decreased slightly from FY 2018 due to continuing site sales.

Figure 17. Montana Population and Housing Price Index, 2010-2018

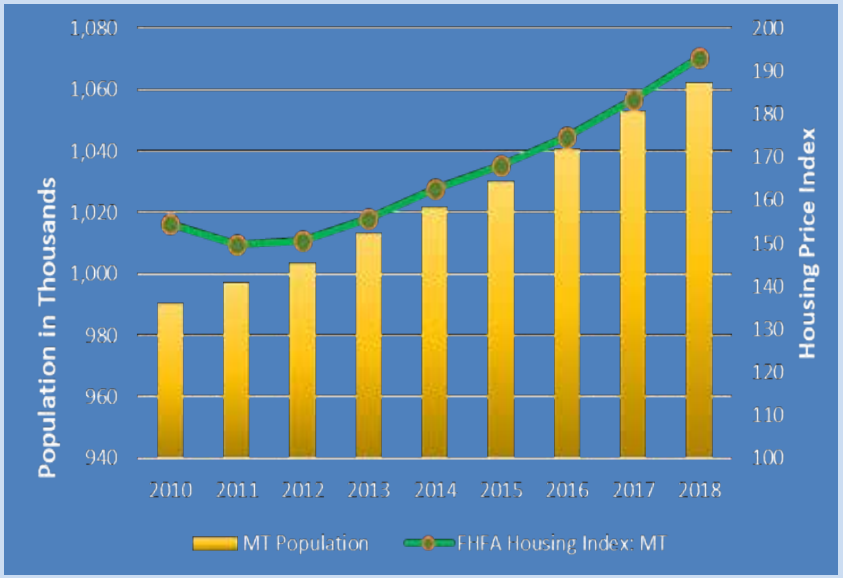
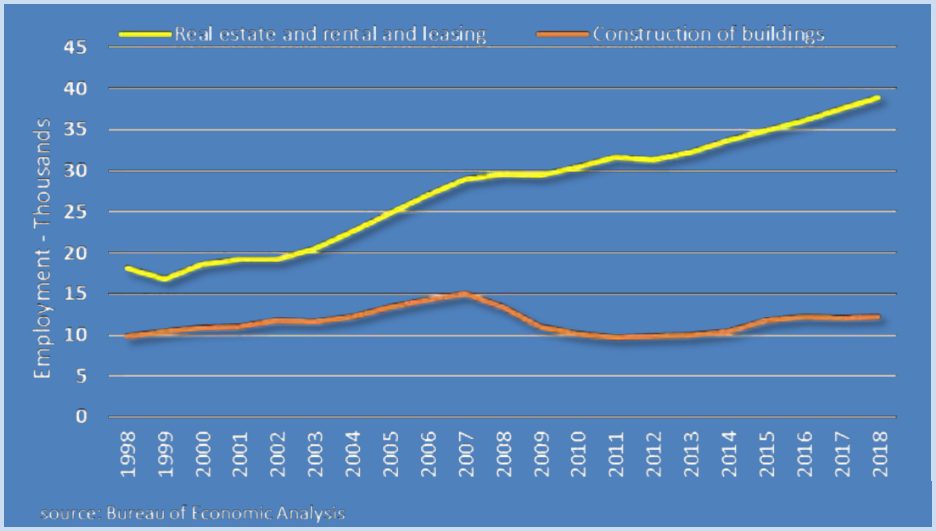


Figure 18. Montana Real Estate Rental and Construction Employment



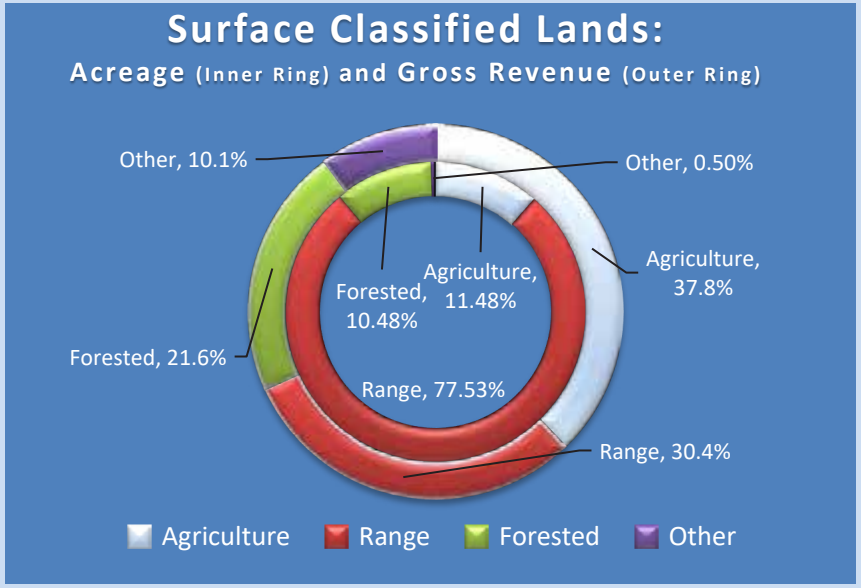
Rights-of-way revenues have also been a significant portion of Real Estate revenues. These are more difficult to forecast, as they are largely driven by outside requests. Many counties are still working through the historic road rights-of-way process, and new access agreements in support of other property sales, exchanges, and developments will likely continue to bring in revenues over future years.

STATE TRUST PERFORMANCE

Montana state trust surface and mineral rights total 5.2 million surface acres and 6.2 million subsurface acres, respectively. **Figure 19** highlights the approximately 78 percent of trust surface acres that are classified as grazing lands, which are located primarily east of the continental divide. The remaining acres are classified as agriculture and forested lands, at 11 and 10 percent of total surface ownership, respectively. Finally, less than one percent of the trust portfolio surface acreage is designated for developed real estate business activities including residential, commercial, community, and conservation properties. **Figure 19** also illustrates the gross revenue contributions from each classification of surface lands. License revenues are excluded from this calculation, as they can be generated on any classification of land as a secondary use.

These multi-category lands represent the bulk of school trust assets, the remaining assets are fixed investments in commercial and government bonds. Land asset values, which are important for benchmarking the financial performance of trust land business over time, are largely estimated. The exception to this is when transaction evidence is available to trust land managers. Since 2003, land banking legislation (MCA 77-2-361-367) has legally permitted a limited number of state trust parcels to be exchanged, bought or sold through careful provisions. While operating to improve income generation, accessibility, and other parallel land management objectives, the Land Banking Program also produces data on the value of a limited number of trust surface parcels. These data, in combination with USDA National Agriculture Statistics Service (NASS), help support the evaluation of aggregated asset values. Finally, mineral rights are excluded from valuation estimates in this report, because mineral estate rights are permanently reserved assets of the State (MCA 77-2-304) and cannot be sold, except by a rental and royalty basis as provided by law.

Figure 19. Trust Land Acreage and Gross Revenue by Land Class



To better understand the diversity of ownership in the school trust portfolio, **Figure 20** and **Table 11** share the percentage and total acreage of surface ownership represented by the

various trust beneficiaries, respectively. The largest single trust is Common Schools which owns over 90 percent, or 4.6 million acres of all school trust land in Montana. The remainder of school trusts make up a small portion of the total business volume and surface ownership of the trust portfolio. Ownership percentages can shift over time, depending on sales and acquisitions resulting from land banking and exchanges. Such occurrences would typically reflect changes in acreage, rather than asset book values, due to requirements to exchange land of par values.

In the central columns of **Table 11**, existing surface ownership details are provided. Mineral estate ownership details are shown in the right most column. Overall, a very small portion of mineral acreages will ever be developed.

Figure 20. Trust Land Acreage by Trust Ownership

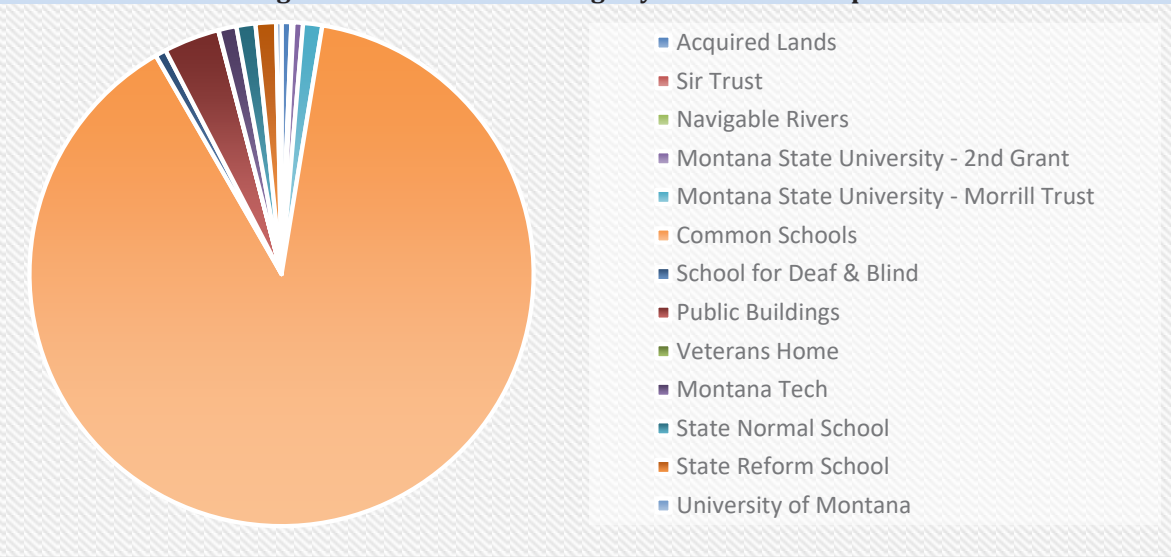


Table 11

SURFACE AND SUBSURFACE ESTATE ACRES BY TRUST OWNERSHIP AND LAND CLASSIFICATION

Trust	Agriculture Acres	Range Acres	Forested Acres	Other Acres	All Surface Acres*	Oil, Gas, Coal Estate Acres**
Acquired Lands – Public Schools	-	-	32,295	-	32,295	-
Sir Trust	477	2,123	-	-	2,600	-
Public Land Trust- Navigable Rivers	-	171	-	3,977	4,148	21,536
MSU – Second Grant	84	8,410	22,320	862	31,676	46,598
MSU – Morrill Grant	2,030	55,240	5,522	681	63,473	77,929
Common Schools	556,312	3,694,780	346,811	17,573	4,615,476	5,596,963
School for Deaf & Blind	1,409	24,217	10,399	436	36,461	41,171
Public Buildings	4,344	106,642	71,835	1,833	184,654	172,323
Veterans Home	90	1,270	-	57	1,417	1,276
Montana Tech	6,328	36,802	15,771	447	59,348	86,267
State Normal School	2,428	45,776	14,661	191	63,056	80,455
State Reform School	996	48,695	18,007	83	67,781	74,107
University of Montana	2,003	13,799	1,440	21	17,263	33,754
Total	**576,501**	**4,037,925**	**539,061**	**26,161**	**5,179,648**	**6,232,379**

*Total acreage may differ from other reports due to the timing of sales and acquisitions through Land Banking and Cabinsite Sales.
**Oil & Gas acreage used for reporting. True acreage when including Coal Estate acres having no overlapping Oil & Gas rights would be larger.

Table 12 reports historical USDA National Agricultural Statistics Service (NASS) survey data on farm real estate values in Montana from 2011 to 2019. NASS data are not region specific but are useful as an aggregated observation of rural and working land value trends in Montana.

Table 12
ANNUAL MONTANA FARM REAL ESTATE VALUES (ACRES AND U.S. DOLLARS REPORTED BY USDA NASS 2012-2019)

Calendar Year	All Farm Land		Agricultural Crop Land		Range, Pasture Land	
	Price/Acre	Annual Change (%)	Price/Acre	Annual Change (%)	Price/Acre	Annual Change (%)
2012	760	7.00%	853	5.70%	570	7.50%
2013	790	3.90%	890	4.20%	580	1.80%
2014	860	8.86%	987	10.90%	640	10.34%
2015	890	3.49%	997	1.01%	650	1.56%
2016	900	1.12%	1010	1.30%	650	0.00%
2017	917	1.89%	1010	0.00%	660	1.54%
2018	916	-0.11%	1020	0.99%	667	1.06%
2019	915	-0.11%	1040	1.96%	680	1.95%

Table 13
AVERAGE TRUST SURFACE ASSET VALUES BY AREA AND CLASSIFICATION
(U.S. DOLLARS PER ACRE ESTIMATED BY DNRC FY 2019)

Land Office	Agriculture Average Asset Value/Acre	Grazing Average Asset Value/Acre	Forest Average Asset Value/Acre
Central	843	727	1042
Eastern	361	243	0
Northeastern	602	305	348
Northwestern	2402	1452	2024
Southern	902	546	0
Southwestern	1322	969	1330

* Real estate values reflect existing DNRC land appraisals, proximity to urban areas, and other developed land market factors, and vary widely within Area Offices. Annual adjustments are made using average land appreciation. Land appraisals do not include privately owned structures on cabin sites, or other real estate improvements.

Table 13 reports FY 2019 estimated average asset values on a per acre basis. These values are appreciated from a FY 2011 baseline valuation with a conservative methodology utilizing the trend data provided by the USDA in **Table 12.** Rural and forested lands are appreciated based on a proportion of appreciation reported annually by USDA farm and rural land surveys. Real estate and other special use lands are valued using the same approach except where existing appraisals (i.e. transaction evidence) can provide timely market valuation data. Forest land valuation is commonly estimated using income-approach methods. In the case of school trust lands, and for tracking and benchmarking assets over multiple years, a less volatile valuation methodology, which can account for real estate and alternative values, is preferred.

Table 14 reports FY 2019 beginning estimated total asset values for each trust. Trust real assets totaled approximately $3.372 billion. These sums are derived through the application of **Table 13** data with **Table 11** current classified acres.

Table 14
TOTAL AVERAGE SURFACE ESTATE ASSETS BY TRUST AND CLASSIFICATION (U.S. DOLLARS ESTIMATED BY DNRC FY 2019)

	Agriculture Assets	Grazing Assets	Forest Assets	Other Assets	Total Assets*
Common Schools	359,786,220	1,566,806,197	624,678,623	84,527,601	2,635,798,641
Public Buildings	3,769,089	71,794,311	123,041,960	7,980,649	206,586,010
MSU – Second Grant	73,858	6,627,643	37,908,111	10,177,802	54,787,414
MSU – Morrill Grant	1,414,108	34,304,173	9,691,152	1,156,650	46,566,083
State Normal School	1,825,715	26,383,878	26,346,164	2,721,564	57,277,321
Montana Tech	7,079,656	19,934,625	28,014,362	10,080,459	65,109,103
University of Montana	1,183,672	5,864,855	2,026,108	1,101,655	10,176,290
Deaf & Blind School	987,045	16,584,464	19,599,185	2,369,356	39,540,050
State Reform School	771,843	30,152,705	21,461,840	3,955,224	56,341,612
Veterans Home	216,219	387,289	0	2,318,414	2,921,922
Sir Trust	172,469	516,475	0	0	688,943
Public Land Trust-Navigable Rivers	0	62,995	0	153,843,612	153,906,607
Acquired Lands – Public Schools	0	0	42,949,914	0	42,949,914
Total Assets	**377,279,894**	**1,779,419,609**	**935,717,420**	**280,232,988**	**3,372,649,911**

* Excludes mineral rights and Permanent Fund valuations.

Table 15 reports FY 2019 trust lands management net income by trust. MSU-Morrill Trust shows a 100% Profit Ratio due to its unique funding mechanism; these management costs are not funded from the gross revenues but rather appropriated separately.

The Sir Trust, included in acreage and asset tables above, does not hold financial accounts. Revenues generated on parcels acquired in the Sir Trust are split across three small trusts: the MT Development Center, the MT State Hospital, and the School for the Deaf & Blind.

Table 15
NET REVENUES BY TRUST (U.S. DOLLARS ESTIMATED BY DNRC 2018)

	Sub-Surface Assets	Surface Assets					Permanent Fund, Other	Total, All Assets	
	Minerals Management	Ag & Grazing Management	Real Estate Management	Forest Management	Land Services	Subtotal: Surface Assets	Net from Other Assets	Total Net Operating Income	Profit Ratio
Common Schools	$22,370,646	$27,521,088	$2,435,645	$3,394,272	$236,812	$33,587,818	$19,263,101	$75,221,565	86%
Public Buildings	$188,363	$428,238	$61,949	$1,151,460	-$108,447	$1,533,201	-$185,192	$1,536,372	58%
MSU – Second Grant	$4,101	$42,573	$865,639	-$70,051	-$156,513	$681,647	$399,201	$1,084,949	68%
MSU – Morrill Grant	$6,670	$300,012	$26,132	$101,117	$687	$427,948	$195,982	$630,600	100%
State Normal School	$442	$271,262	$75,513	$336,542	-$2,687	$680,630	$179,527	$860,598	72%
Montana Tech	-$443	$443,826	$571,300	$284,532	-$14,628	$1,285,030	$197,123	$1,481,710	83%
University of Montana	$597	$142,772	$58,204	-$6,686	-$4,446	$189,844	$48,729	$239,169	83%
Deaf & Blind School	$2,374	$163,258	$23,515	$54,660	-$43,922	$197,511	$170,763	$370,648	67%
State Reform School	$3,572	$164,200	$176,162	-$79,309	$6,698	$267,751	$133,430	$404,754	63%
Veterans Home		$6,662	$3,320	-$1	$0	$9,981	$670	$10,651	67%
MT Development Center		$6,359	$63		$0	$6,421	$0	$6,421	97%
MT State Hospital		$6,358	$63		$0	$6,421	$0	$6,421	97%
Public Land- Navigable Rivers	$783,091	-$4,147	$3,531		-$94,473	-$95,106	$359,570	$1,047,554	73%
Acquired Lands- Public Schools		$9,724		-$3,107	-$68	$6,979	$1,114	$8,093	32%
Forest Improvements Revenue					$896,366		$0	$896,366	
Grand Total	**$23,359,413**	**$29,502,185**	**$4,301,466**	**$5,163,412**	**$715,379**	**$39,682,442**	**$20,764,018**	**$83,805,873**	**85%**

*Land management revenue includes hydro leasing and right-of-way payments.
** Land management costs reflect division costs not including mineral program administration.

Table 16 presents calculated income rates of return on land classifications by Trust, based on estimated asset values and revenues reported in other tables in this document.

Table 16
FY 2019 INCOME RETURNS BY SURFACE LANDS ASSET CLASS

	Ag & Grazing	Forested	Other Real Estate	Surface Assets Income Returns***
Common Schools	1.4%	0.5%	2.8%	1.27%
Capitol Buildings	0.6%	0.9%	0.9%	0.74%
Montana State University	0.6%	-0.2%	8.7%	1.24%
MSU Morrill	0.8%	1.0%	2.3%	0.92%
Western / Eastern	1.0%	1.3%	3.1%	1.19%
Montana Tech	1.6%	1.0%	5.9%	1.97%
University of Montana	2.0%	-0.3%	5.9%	1.87%
Deaf & Blind School	0.9%	0.3%	2.1%	0.50%
Pine Hills School	0.5%	-0.4%	4.8%	0.48%
Veterans Home	1.1%		0.2%	0.34%
Public Land Trust-Navigable Rivers	-6.6%		0.0%	-0.06%
Acquired Lands – Public Schools		0.0%		0.02%
TOTAL SURFACE ASSETS INCOME RETURN	**1.13%**	**0 .70%**	**1.52%**	**1.05%**

***Income returns are a dividend equivalent and calculated as the ratio of surface net operating income to estimated average surface asset value of this fiscal year.

TRUST LAND PROGRAM PERFORMANCE

Total program revenues and operational expenses (i.e. costs of doing business) have generally increased over the last eight years. **Table 17, Table 18,** and **Table 19** summarize program revenues, costs, and net operating income, respectively, and **Figures 21, 22** and **23** illustrate the trends in program revenues and costs over the same years.

Table 17
TRUST LAND TOTAL PROGRAM REVENUES FY 2012 THROUGH FY 2019 (U.S. DOLLARS REPORTED BY DNRC TLMD)

Program	Agriculture and Grazing Mgmt	Forest Mgmt	Real Estate Mgmt	Minerals Mgmt	Recreational Use Mgmt	Total Program Revenues	Permanent Fund Earnings / Other	Total Revenues
FY 2012	23,898,972	7,173,483	8,076,183	45,846,476	1,101,020	87,048,332	24,543,638	111,591,970
FY 2013	27,827,321	10,504,738	8,139,565	38,873,679	1,089,037	92,052,551	23,431,753	115,484,304
FY 2014	28,495,222	11,204,002	9,049,364	39,116,340	1,101,392	90,958,006	23,460,822	114,418,828
FY 2015	28,894,893	11,950,115	8,974,400	28,553,590	1,233,102	84,895,976	24,207,216	109,103,192
FY 2016	31,930,471	8,566,451	9,014,114	19,041,008	1,233,225	71,680,479	24,167,124	95,847,603
FY 2017	27,909,929	10,958,249	4,564,587	16,303,811	1,238,805	62,247,394	23,990,823	86,238,217
FY 2018	26,249,268	10,685,127	4,671,168	20,254,794	1,172,611	63,890,614	23,589,999	87,480,613
FY 2019	30,277,035	10,495,247	5,007,457	24,461,732	1,341,394	73,685,486	25,523,025	99,208,511

*Rights of Way revenues not included in Real Estate column, but are included in Total Program Revenues. These revenues can be generated on any classification of surface trust land ownership.

Figure 21. Annual Revenues by Program, FY 2012 through FY 2019

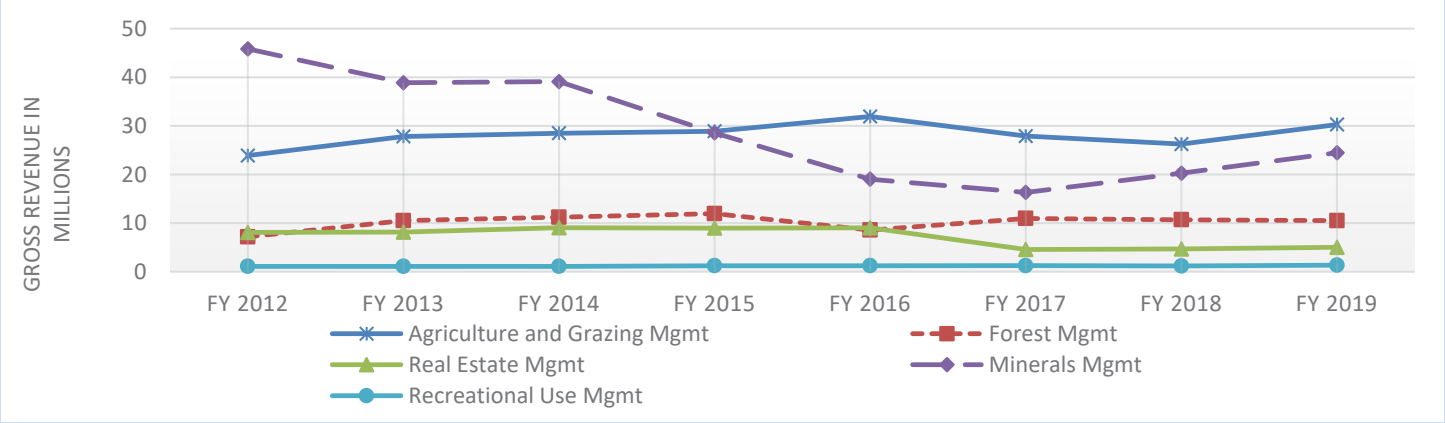


Table 18 TRUST LAND TOTAL PROGRAM COSTS FY 2012 THROUGH FY 2019 (U.S. DOLLARS REPORTED BY DNRC TLMD)								
Program	**Agriculture and Grazing Management Costs**	**Forest Management Costs****	**Real Estate Management Costs***	**Minerals Management Costs**	**Recreational Use Management Costs**	**Total Program Costs**	**Division Management Costs**	**Total Division Costs**
FY 2012	1,522,783	5,205,765	1,705,382	936,844	169,114	9,539,888	2,592,640	12,132,528
FY 2013	1,618,377	5,662,690	1,669,435	993,887	174,996	10,119,385	2,481,035	12,600,420
FY 2014	1,735,023	5,421,067	1,826,934	987,336	194,708	10,165,068	2,923,007	13,088,075
FY 2015	1,741,498	6,022,300	1,889,774	933,227	185,322	10,772,121	3,274,242	14,046,363
FY 2016	1,872,312	5,681,176	1,987,614	1,030,263	207,129	10,778,494	3,484,667	14,263,161
FY 2017	1,941,820	5,709,143	2,072,777	1,071,173	168,151	10,963,064	3,735,123	14,698,187
FY 2018	1,818,708	5,517,291	*1,059,940	982,674	202,622	10,614,499	3,885,685	14,500,184
FY 2019	1,877,798	4,435,468	*690,643	1,018,308	230,446	11,104,686	3,793,567	14,898,256

*Land Transactions/ Rights of Way costs excluded from Real Estate Management column in FY 2018/FY 2019, included in previous years in this column. These costs are associated with all classified surface trust lands and are included in the Total Program Costs column in FY 2018/FY 2019.

**Forest Improvement excluded from the Forest Management column in FY 2018/FY 2019. These expenses are used for various land asset improvements, including acquiring access to Trust parcels. These expenses were included in the Forest Management Costs column for years prior to FY 2018.

Figure 22. Annual Costs by Program, FY 2012 through FY 2019

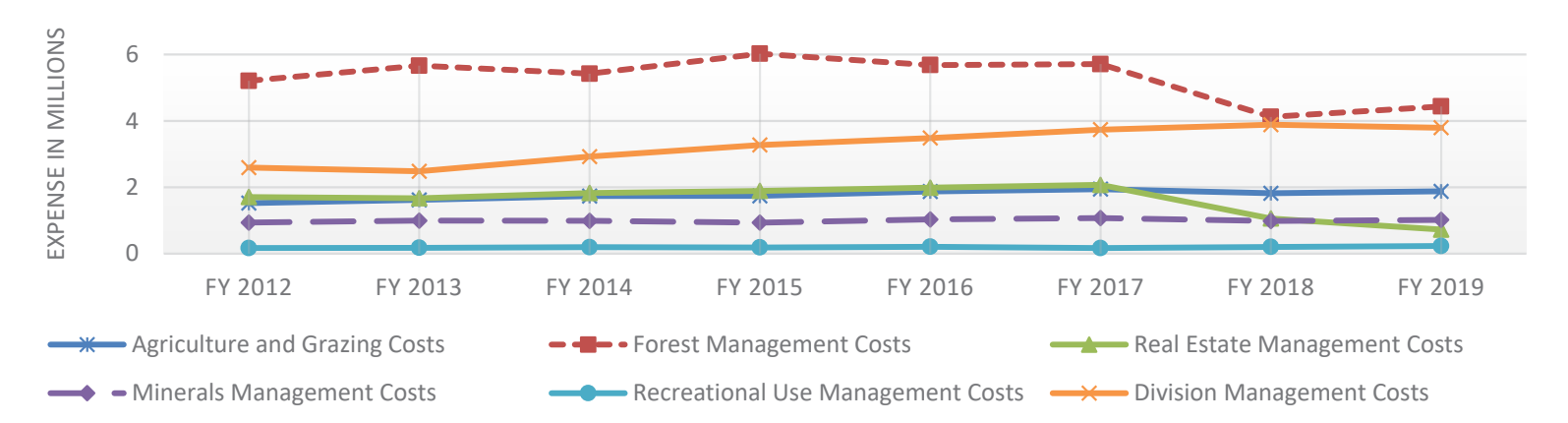
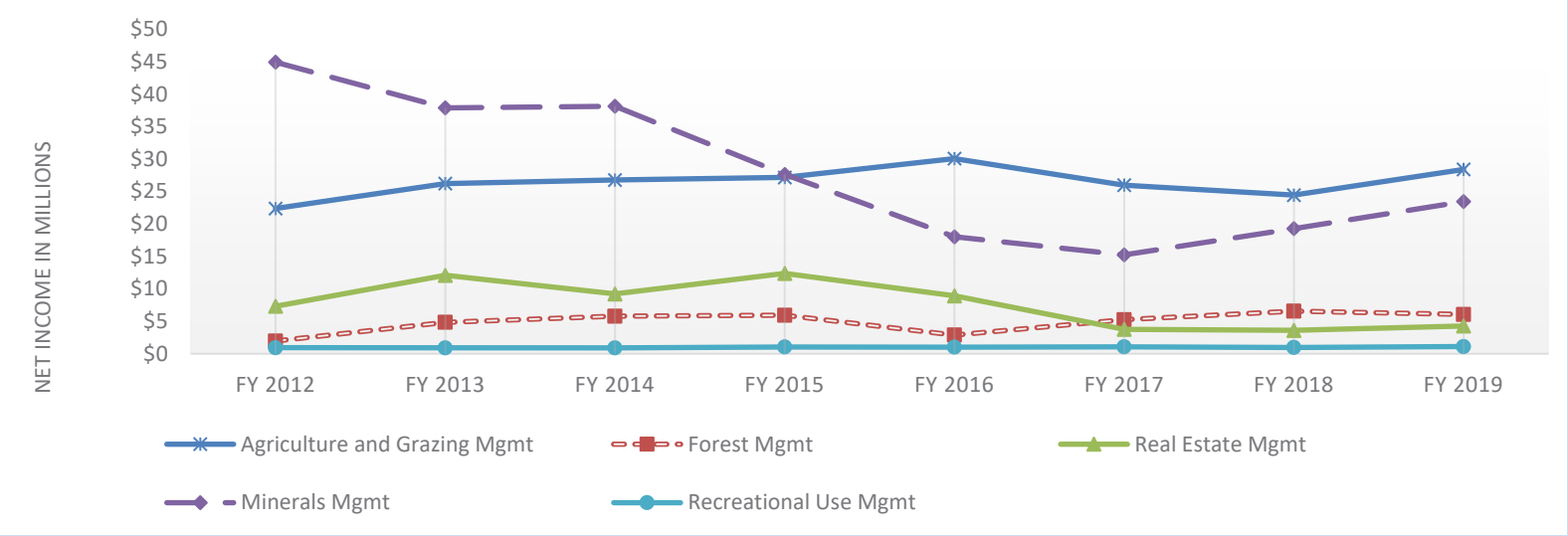


Table 19
TRUST LAND PROGRAM NET OPERATING INCOME FY 2012 THROUGH FY 2019 (U.S. DOLLARS REPORTED BY DNRC TLMD)

Program	Agriculture and Grazing Mgmt	Forest Mgmt	Real Estate Mgmt	Minerals Mgmt	Recreational Use Mgmt	Total Program Net Operating Income	Real and Financial Assets Net Operating Income
FY 2012	22,376,189	1,967,718	7,322,999	44,909,632	931,906	77,508,444	99,459,442
FY 2013	26,208,944	4,842,048	12,088,341	37,879,792	914,041	81,933,166	102,883,884
FY 2014	26,760,199	5,782,935	9,214,116	38,129,004	906,684	80,792,938	101,330,753
FY 2015	27,153,395	5,927,815	12,374,502	27,620,363	1,047,780	74,123,855	95,056,829
FY 2016	30,058,159	2,885,275	8,921,710	18,010,745	1,026,096	60,901,985	81,584,442
FY 2017	25,968,109	5,249,106	3,763,823	15,232,638	1,070,654	51,284,330	71,540,030
FY 2018	24,430,560	6,564,237	3,611,228	19,272,120	969,989	53,276,115	72,980,429
FY 2019	28,399,237	6,059,779	4,282,591	23,443,424	1,110,948	62,580,800	84,310,255

Figure 23. Annual Net Operating Income by Program, FY 2012 through FY 2019



DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

1539 ELEVENTH AVENUE
P.O. BOX 201601
HELENA, MT 59620-1601
WWW.DNRC.MT.GOV

Persons with disabilities who need an alternative, accessible format of this document should contact DNRC at the address shown above. Phone 406/444-2074.

Front cover photos from left to right:
Teton County – Photo by John Reddy
Fallon County – Photo by John Reddy
Spring Prairie IV – Photo by Anne Moran, Northwestern Land Office
Timber harvest – Photo by Dustin Lenz, Northeastern Land Office

200 copies of this document were printed at an estimated cost of $11.843 per copy, for a total cost of $2,368.58 including $2,368.58 for printing and $0.00 for distribution.