

Ballot Proposal 1 of 2020



MICHIGAN NATURAL RESOURCES TRUST FUND AND MICHIGAN STATE PARKS ENDOWMENT FUND CONSTITUTIONAL AMENDMENTS

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Proposal 20-1
November 3, 2020 General Election
Placed on the ballot by the Legislature
Complete to 10-7-20

SUMMARY:

Proposal 20-1 would amend the state constitution to change certain restrictions governing Michigan Natural Resources Trust Fund recreation project funding and to provide for additional revenue to be credited to that fund under certain conditions. The proposal also would add an expenditure requirement for the Michigan State Parks Endowment Fund.

The following is the official language of Proposal 20-1 as it appears on the November 2020 general election ballot:

<p>Proposal 20-1</p> <p>A proposed constitutional amendment to allow money from oil and gas mining on state-owned lands to continue to be collected in state funds for land protection and creation and maintenance of parks, nature areas, and public recreation facilities; and to describe how money in those state funds can be spent</p> <p>This proposed constitutional amendment would:</p> <ul style="list-style-type: none">• Allow the State Parks Endowment Fund to continue receiving money from sales of oil and gas from state-owned lands to improve, maintain and purchase land for State parks, and for Fund administration, until its balance reaches \$800,000,000.• Require subsequent oil and gas revenue from state-owned lands to go into the Natural Resources Trust Fund.• Require at least 20% of Endowment Fund annual spending go toward State park improvement.• Require at least 25% of Trust Fund annual spending go toward parks and public recreation areas and at least 25% toward land conservation. <p style="text-align: center;">Should this proposal be adopted?</p> <p style="text-align: center;">[] YES</p> <p style="text-align: center;">[] NO</p>
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Proposal 20-1 was placed on the ballot after the adoption of Senate Joint Resolution O by the required two-thirds vote of each house of the legislature on December 21, 2018.¹ At the same time, the legislature passed three bills (Senate Bills 763, 931, and 932) to make complementary changes to the law. These bills were enacted as 2018 PAs 597, 598, and 599, but they cannot take effect unless Proposal 20-1 is approved by the voters. Proposal 20-1 and the accompanying bills are described below.

¹ The resolution was adopted unanimously by both houses. See <http://legislature.mi.gov/doc.aspx?2018-SJR-O>

Proposal 20-1 (Senate Joint Resolution O)

Proposal 20-1 would amend sections 35 and 35a of Article IX of the state constitution to do all of the following:

Section 35 – Michigan Natural Resources Trust Fund

- Provide that the MNRTF would once again receive revenues from leases of state lands for the extraction of nonrenewable resources once the Michigan State Parks Endowment Fund (MSPEF) reaches its accumulated principal cap of \$800.0 million. The MSPEF principal was \$282.7 million after fiscal year (FY) 2018-19. The Department of Natural Resources (DNR) projects that the fund will take approximately 30 years to reach its cap.
- Restrict the legislature from appropriating more than 50% of annual revenue, in addition to the fund’s annual interest and earnings, for acquisition and development projects once the MNRTF begins to receive the aforementioned revenue again.
- Change the restriction on the percentage of funds made available for development projects from a maximum of 25% to a minimum of 25%, which matches the restriction on funds made available for acquisition projects.
- Add “renovation and redevelopment” alongside “development” as an allowable use for MNRTF-funded projects.
- Clarify the purpose of MNRTF-funded acquisition projects to be “for recreational uses or protection of land because of its environmental importance or scenic beauty.”
- Eliminate references to the Michigan Natural Resources Trust Fund (MNRTF) reaching an accumulated principal of \$500.0 million that have become obsolete since this cap was reached in May 2011.

Section 35a – Michigan State Parks Endowment Fund

- Require that at least of 20% of the money expended from the MSPEF in each fiscal year be used for capital improvements at state parks.
- Add fund administration as an allowable use of the fund.

Senate Joint Resolution O states that the above amendment must be included on the ballot in the next general election (November 3, 2020) and that the legislature must provide by law for the implementation of its provisions (Senate Bills 763, 931, and 932).

Senate Bill 763 (2018 PA 597)

Senate Bill 763 would amend the Natural Resources and Environmental Protection Act (NREPA), 1994 PA 451, to include many of the section 35 provisions of Senate Joint Resolution O and to do all of the following:

- Limit the accumulated principal of the MNRTF to \$500.0 million until the accumulated principal of the MSPEF reaches \$800.0 million, after which time revenues from leases of state lands for the extraction of nonrenewable resources would once again be credited to the MNRTF.
- Add “renovation and redevelopment” as allowable uses for MNRTF-funded development projects.
- Specify that MNRTF-funded acquisitions should be made “for recreational uses or protection of land because of its environmental importance or scenic beauty.”

MCL 324.1901 et seq.

Senate Bill 931 (2018 PA 598)

Senate Bill 931 would amend NREPA to require that at least of 20% of the money expended from the MSPEF in each fiscal year be used for capital improvements at state parks. The bill would also add fund administration as an allowable use of the fund.

MCL 324.74119

Senate Bill 932 (2018 PA 599)

Senate Bill 932 would amend NREPA to include the following definition:

“Endowment fund” would mean the Michigan State Parks Endowment Fund established in section 35a of Article IX of the state constitution.

MCL 324.74101

BACKGROUND:

The Michigan Natural Resources Trust Fund was established in the state constitution when Ballot Proposal B was approved by voters in 1984. (Its predecessor fund had existed in statute since 1976.) The MNRTF receives revenue from leases paid for the extraction of nonrenewable mineral resources (mostly oil and gas) on state-owned land. The annual interest and earnings generated by the fund are used primarily to acquire and develop land for recreational purposes through grants distributed to local governments or state agencies such as the Department of Natural Resources. Grant projects are recommended for funding by the MNRTF Board and are forwarded to the legislature for appropriation.

The accumulated principal in the MNRTF is capped at \$500.0 million. It reached this amount in 2011. The constitution provides that once this cap is reached, the annual revenues the MNRTF otherwise would receive from bonuses, rentals, delayed rentals, and royalties from oil and gas leases on state-owned land must be deposited instead in the Michigan State Parks Endowment Fund. Annual expenditures from the MNRTF are limited to interest and investment earnings of the principal and funding carried forward from previous years.

The constitution requires that *not less than 25%* of the total amount made available for expenditure from annual MNRTF revenue must be spent to acquire land and rights in land and that *not more than 25%* of the total amount made available for expenditure from annual MNTRF revenue may be spent to develop public recreation facilities. (Proposal 20-1 would additionally allow expenditure of available MNRTF funds to renovate and redevelop public recreation facilities and would require that *not less than 25%* of the total amount made available each year must be spent to develop, renovate, or redevelop public recreation facilities.)

The Michigan State Parks Endowment Fund was established in the state constitution when voters approved Ballot Proposal P of 1994. The MSPEF funds state park operations, maintenance, capital improvements, and land acquisition. (Proposal 20-1 would allow expenditure of available MSPEF funds for fund administration and would require that not less than 20% of the funds available for expenditure must be spent on capital improvements at state parks.)

As indicated above, since 2011 the MSPEF has received the annual revenues from bonuses, rentals, delayed rentals, and royalties from mineral leases on state-owned land that would have been deposited in the MNRTF if the MNRTF had not reached its cap. The accumulated principal of the MSPEF is also capped, at \$800.0 million, which it is not expected to reach until after mid-century. Up to half of the annual oil and gas revenues, and all of the MSPEF's interest and earnings, can be spent the following year for the purposes described above. Currently under the constitution, when the amount in the fund reaches \$800.0 million, annual revenue funds from oil and gas leases must be "distributed as provided by law," which in the absence of further direction means that it would be deposited in the state's general fund. (Under Proposal 20-1, when the MSPEF reached its cap, the cap on the MNRTF would be eliminated and it would again receive the oil and gas revenues. After that, MSPEF expenditures could only include interest and earnings, while MNRTF expenditures could include interest and earnings and up to 50% of the annual revenues.)

FISCAL IMPACT:

Proposal 20-1 and corresponding Senate Bills 763, 931, and 932 would have varied fiscal impacts on units of government at both the state and local levels. However, these legislative changes would not directly change revenues for the MNRTF or the MSPEF. Rather, these funds' interest and earnings as well as the income from leases on state land for the extraction of nonrenewable resources are subject to investment market conditions and the market prices for commodities such as oil, natural gas, and various minerals. In FY 2018-19, the MNRTF earned \$42.9 million in investment income, while the MSPEF has averaged \$33.4 million in annual income from nonrenewable resources royalties in recent years. Proposal 20-1 and the accompanying bills would change the distribution of this revenue, however, and change availability of grant funding to local governments.

Michigan Natural Resources Trust Fund (MNRTF)

Proposal 20-1 and Senate Bill 763 would amend the constitution and statute regarding the MNRTF. This trust fund has been used to award grants to both the state and local units of government for the acquisition and development of land for public recreation since 1976. The addition of "renovation and redevelopment" to the trust fund's purposes is likely to expand the pool of prospective projects and increase potential grant recipients' opportunities for funding. The MNRTF Board received 131 development grant applications in FY 2018-19, 60 of which were ultimately funded. It is unclear how many more development applications would be received under this expansion of the fund's purpose.

The MNRTF principal has not received revenue since the fund reached its cap of \$500.0 million in May 2011; rather, the fund has continued to grow through the principal's annual interest and earnings. The bills would provide for the MNRTF's principal to again receive revenues from nonrenewable resource royalties once the MSPEF reaches its \$800.0 million cap. This change would allow the MNRTF to grow faster than currently provided for by statute, thereby increasing the funding available for public recreation project grants, although the MSPEF cap is not projected to be reached for more than 30 years.

Changing the restriction on funds made available for MNRTF-funded development projects from a maximum of 25% to a minimum of 25% would allow the MNRTF Board to recommend, and the legislature to appropriate, more funding for projects than may currently be spent. A total of \$46.0 million was made available for project funding from FY 2018-19 MNRTF

revenue, and a majority of acquisition applicants (19 of 30) received grants totaling \$17.2 million. However, only 60 of 131 development applicants received a grant since development awards were capped at \$11.5 million (25% of the \$46.0 million made available) although development applications totaled \$29.7 million. Changing the development project funding ceiling of 25% to a floor of 25% would match the restriction on acquisition projects and could provide for all development applications to be appropriated in a given year if recommended by the MNRTF Board.

Michigan State Parks Endowment Fund (MSPEF)

Proposal 20-1 and Senate Bill 931 would amend the constitution and statute to require that not less than 20% of annual expenditures from the MSPEF be used for state park capital outlay projects. Since the DNR split from the Department of Environmental Quality² in FY 2011-12, total MSPEF appropriations have averaged \$27.4 million, while MSPEF state park capital outlay appropriations have averaged \$3.3 million (12.1%). State park capital outlay appropriations have met or exceeded 20% of total MSPEF appropriations only once in this period: \$9.5 million of \$25.8 million (36.9%) in FY 2011-12. This provision would not change the fund's allowable uses or affect overall costs or revenues for the department, but it would increase the average percentage of MSPEF funds used for capital outlay projects while decreasing the average percentage expended for the fund's other allowable uses of operations and maintenance at state parks and the acquisition of land or rights in land for state parks.

ARGUMENTS FOR AND AGAINST THE PROPOSAL:

Supporters say Proposal 20-1 would modify but not fundamentally change a successful and broadly supported funding framework in order to enhance its flexibility and ensure its future viability.³ Since 1976, oil and gas lease revenues have provided over \$1.2 billion for public lands, with over 1,000 parks funded in all 83 counties. The proposal would ensure, without raising taxes, that revenue will continue to be available for conservation and recreation projects and that the principal of both the MNRTF and the MSPEF will be protected so that fund interest and earnings can also support those projects into the foreseeable future.

With regard to the changes the proposal would make to current restrictions on MNRTF expenditures, supporters argue that these will bring a much-needed flexibility to future spending choices. Currently, at least 75% of the allowable expenditures each year must be used for land acquisition and related costs, while spending for development of public recreation facilities is capped at 25%. In many years, this has meant that every application for a land acquisition grant has been approved, while many applications for worthwhile facility improvements have been denied, not because a lack of funds but because of the 25% cap.

Proposal 20-1 would require that at least 25% of allowable expenditures be spent on land acquisition, and at least 25% be spent on facilities development, but it would allow for discretion in apportioning the remaining 50% between those two permissible uses of the fund.

² Now the Department of Environment, Great Lakes, and Energy.

³ Vote Yes for MI Water, Wildlife & Parks was created to advocate for the passage of Proposal 20-1. It lists supporters and partners on its website: <https://miwaterwildlifeparks.com/>

The Michigan Recreation and Park Association, itself a supporter of Vote Yes for MI Water, Wildlife & Parks, also maintains a webpage that lists local communities and boards and commissions that have endorsed the proposal: <https://www.mparks.org/page/VoteYes>

Supporters argue that these new requirements will ensure a baseline level of funding for the acquisition and preservation of land, while at the same time allowing the flexibility to create and improve recreational facilities. Many facilities are old and need to be renovated or replaced. Many older facilities and the parks they are in require improvements to make them accessible to persons with disabilities. Proposal 20-1 would increase the amount of money that could be spent on developing, renovating, or redeveloping recreation facilities.

Opponents argue that Proposal 20-1 is a poor long-term solution to the state’s conservation interests.⁴ After the expenditure formula changes, a bigger share—potentially a much bigger share (up to 75%)—could go to recreation facilities development, when the primary purpose of the trust fund from the start has been to protect and preserve Michigan’s irreplaceable natural spaces for future generations. While recreational facilities are important and need funding, their construction and upkeep should not come at the expense of safeguarding lands noted for their scenic beauty or environmental or recreational significance.

Critics note that such lands are a nonrenewable resource—once they’re gone, they’re gone—and that, likewise, the minerals whose extraction provides the basis for these revenues are nonrenewable—once gone, gone—and, in opposing Proposal 20-1, they urge the development of a more sustainable long-term funding solution for both land acquisition, protection, and preservation and the development and renovation of parks and recreational facilities.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

⁴ See the Sierra Club Michigan Chapter position on the proposal:
<https://docs.google.com/document/d/1MrRzsNIpWz2IMjxBWBhIX37dFOsE5ZRhPO1c-FYvNZA/edit>