

Council Comments:

Citizens Research Council of Michigan

625 SHELBY STREET, SUITE 1B, DETROIT, MI 48226-3220

(313) 961-5377 FAX (313) 961-0648

1502 MICHIGAN NATIONAL TOWER, LANSING, MI 48933-1738

(517) 485-9444 FAX (517) 485-0423

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STATEWIDE BALLOT PROPOSALS-I

PROPOSAL P: NATURAL RESOURCES TRUST FUND - STATE PARKS ENDOWMENT FUND

Proposal P is one of four statewide proposals on the November 8, 1994 ballot. The other proposals will be discussed in subsequent **Council Comments**.

THE ISSUE IN BRIEF

Proposal P was placed on the ballot by the Legislature and it would amend Section 35 of Article 9 and add another Section 36 Article 9 of the state Constitution. If approved by the voters it would:

- eliminate the diversion of revenue from the Michigan natural resources trust fund to the Michigan strategic fund.
- increase the limitation on the accumulated principal of the natural resources trust fund
- establish a Michigan state parks endowment fund and distribute a portion of the oil and gas lease revenues from the Michigan natural resources trust fund to it.

The proposed amendment gives constitutional status to a number of policy provisions that could be accomplished by statute under the current constitutional provisions.

Michigan Natural Resources Trust Fund

From 1976 to 1984, the statutory recreational land acquisition (“Kammer”) trust fund was used to accumulate revenues from oil and gas leases on state owned lands in a perpetual fund to purchase land for the benefit of future generations. This fund was the subject of several controversial diversions and the Constitution was amended in 1984 to establish the natural resources trust fund and restrict the use of its revenues (Article 9, Section 35). Statutory provisions for the trust fund are contained in Public Act 101 of 1985.

The natural resources trust fund consists of revenues derived from leases for the “extraction of non-renewable resources from state owned lands” except from lands acquired under state or federal game and fish protection funds. Section 35 of Article 9 allows all interest and earnings accruing to the trust fund each fiscal year to be expended the following year. This has averaged almost \$9 million annually, but in 1993 was only \$5 million. In addition, until the trust fund reaches its principal cap of \$200 million, the Legislature may appropriate up to one-third of the oil and gas lease revenues received by the trust fund each fiscal year. Since lease revenues have averaged about \$36 million annually, the legislature has

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been able to appropriate an average of \$12 million annually, plus \$9 million from interest for a total of \$21 million annually. After the trust fund reaches its principal cap, only interest may be appropriated. However, as of September 30, 1993, the trust fund principal was only \$70 million. Expenditures from these revenues are limited to the purchase of land or rights in land for recreational uses or because of “its environmental importance or its scenic beauty,” the development of public recreation facilities, and the administration of the fund.

Section 35 of Article 9 also permits the Legislature to authorize the diversion of a portion of the trust fund revenues each fiscal year to the Michigan strategic fund. The strategic fund attempts to encourage economic growth by leveraging private sector investment with public funds. An average of \$20 million annually has been diverted to the strategic fund. Transfers to the strategic fund have constituted about one-half of the natural resources trust fund lease revenues since the inception of the fund. The annual diversions to the strategic fund have prevented the natural resources trust fund from reaching its \$200 million principal cap and limited the amount of interest available for appropriation.

**Revenues, Expenditures and Principal Balance--
Michigan Natural Resources Trust Fund
(millions of dollars)**

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Revenue								
Oil & Gas Leases	\$42.1	\$39.2	\$36.2	\$34.9	\$36.5	\$32.9	\$35.7	\$33.7
Interest	<u>7.5</u>	<u>7.0</u>	<u>9.0</u>	<u>12.1</u>	<u>12.2</u>	<u>10.8</u>	<u>6.6</u>	<u>5.1</u>
Total Revenues	\$49.6	\$46.2	\$45.2	\$47.0	\$48.7	\$43.7	\$42.3	\$38.8
Expenditures								
To Strategic Fund	\$19.0	\$19.0	\$22.0	\$20.0	\$20.0	\$20.0	\$20.0	\$20.0
Land Acquisition & Recreation Projects	<u>19.9</u>	<u>20.1</u>	<u>21.1</u>	<u>23.7</u>	<u>24.2</u>	<u>21.6</u>	<u>17.3</u>	<u>16.3</u>
Total Expenditures	\$38.9	\$39.1	\$43.1	\$43.7	\$44.2	\$41.6	\$37.3	\$36.3
Available for								
Principal Balance	\$10.7	\$7.2	\$2.2	\$3.5	\$4.5	\$2.1	\$5.0	\$2.4
Principal Balance	\$43.4	\$50.6	\$52.7	\$56.2	\$60.8	\$62.9	\$67.9	\$70.3

Source: Michigan Department of Natural Resources

The current diversion of trust fund revenues to the strategic fund under Public Act 101 of 1985 is scheduled to expire on September 30, 1994, after the outstanding debt of the strategic fund is retired. However, the Legislature could continue transfers to the strategic fund through new legislation.

Provisions of Proposal P

Eliminate Strategic Fund Diversion Proposal P would eliminate the current constitutional authority of the Legislature to divert trust fund revenues to the strategic fund after September 30, 1994, freeing up \$20 million annually.

Increase Principal Cap Proposal P also would increase the principal balance limit of the trust fund from \$200 million to \$400 million, which could be accomplished by statute. The restriction that spending be limited only to interest after the trust fund reaches \$200 million would remain. Raising the principal cap is deemed necessary because the price of land purchased by the trust fund has risen while interest earnings have declined. Raising the cap would result in more interest available for appropriation and provide more funds to purchase land.

Transfer to the State Parks Endowment Fund Proposal P would establish a new diversion of up to \$10 million annually to a newly created Michigan state parks endowment fund. This diversion is limited to the lesser of \$10 million or 50 percent of trust fund lease revenues in any year. Currently not more than 25 percent of total trust fund expenditures can be used for recreation facilities. The 50 percent limit insures that the trust fund retains at least one-half of its dedicated lease revenues each year, as opposed to the current law, under which the strategic fund is guaranteed a set amount of trust fund revenues annually, regardless of their level. When the natural resources trust fund reaches \$400 million, all revenues otherwise dedicated to it would be deposited into the Michigan state parks endowment fund. Proposal P provides that when the state parks endowment fund reaches a principal balance of \$800 million all natural resources trust fund revenues, exclusive of interest, will be distributed as provided by law.

Fiscal Impact The initial net effect of the elimination of the strategic fund transfer and the creation of the state parks endowment fund diversion is that \$10 million more per year will be retained by the Michigan natural resources trust fund. The Senate Fiscal Agency projects that under Proposal P the trust fund would reach \$200 million in 13 years. After reaching \$200 million, only interest earnings could be expended for trust fund projects thereby enabling the trust fund to reach the \$400 million cap in 23 years. It is estimated that \$24 million in interest earnings would be available annually for expenditure when the \$400 million cap is reached.

Michigan State Parks Endowment Fund

Funding Michigan State Parks The Michigan state park system, established in 1919, historically relied almost entirely upon general fund appropriations to support park operations, maintenance and capital improvements. Beginning in 1980, the park system became more dependent upon user fees for funding. The primary funding sources for Michigan state parks today are 23 percent from motor vehicle entrance fees, 49 percent from camping fees and concession revenues, and 23 percent from the state general fund. For fiscal year 1994, over 75 percent of the \$31 million of state parks revenues comes from sources other than general fund appropriations. The current funding mechanism is volatile and contingent upon factors such as weather conditions, the number of days parks are open, the number of camping nights, the ability to raise user fees, and legislative priorities. Although Michigan voters have approved bond issues in the past to provide for multi-year capital improvement projects, no permanent, ongoing funding mechanism for parks has ever been established.

Creation of a State Parks Endowment Fund Proposal P would add a Section 36 to Article 9 to establish, fund and provide for the use of the Michigan state parks endowment fund. This would be the second Section 36 in Article 9 as a result of an oversight by the Legislature. In March 1994, the voters created a Section 36, Article 9, to dedicate six percent of the tobacco tax proceeds to improving health care. If Proposal P is approved by the voters, the Michigan Constitution would contain two different

Section 36s in Article 9. Renumbering either Section 36 in the future would involve amending the Constitution which requires a vote of the people.

The endowment fund would consist of revenues from the Michigan natural resources trust fund as provided in Section 35 and other revenues as provided by law. The endowment fund is intended to provide a continuous, stable source of funding for park system operations, maintenance and capital improvements. The endowment fund would be limited to \$800 million in accumulated principal, adjusted annually for inflation once it reaches this cap. The endowment fund interest earnings would maintain the adjusted principal limit.

The state parks endowment fund would receive up to \$10 million annually from the natural resources trust fund. In addition, if the state accident fund is sold, \$40 million would be appropriated to the state parks endowment fund as “seed money”.

Under Proposal P, until the endowment fund reaches its \$800 million cap, each year the Legislature may appropriate up to \$5 million annually (adjusted for inflation) from the fund for the state parks system. Once the endowment fund reached its cap, only the interest in excess of the amount required to maintain the principal limit would be available for expenditure. The endowment fund is projected to reach the \$800 million cap in 41 years.

Impact on Michigan State Parks System Proposal P initially would provide an additional \$5 million annually for state parks over fiscal year 1994, which is a 16 percent increase over the \$31 million currently being spent. To prevent the legislature from replacing general fund support for state parks with the new endowment fund appropriation, a related piece of legislation provides that unless general fund support of the park system increases with inflation, the increases in park user fees effective in 1989 will be repealed. Even with general fund support indexed to Inflation and the \$5 million annual endowment fund appropriation, the state parks system would remain predominantly dependent upon user fees for the majority of its funding. Proposal P represents a step towards providing some degree of stable, long-term support of state parks.