



STATEWIDE BALLOT PROPOSAL 20-1: MICHIGAN NATURAL RESOURCES TRUST FUND

In a Nutshell

Proposal 1 is a fairly technical and complicated proposed amendment to the Michigan Constitution to change the disposition and allowable uses of future revenue generated from oil and gas bonuses, rentals, and royalties from state-owned land.

If Proposal 1 is Rejected, the Michigan State Parks Endowment Fund (MSPEF) would continue to receive oil and gas bonuses, rentals, and royalties revenue annually until its principal balance reaches \$800 million. This is not expected to occur for another three decades. After this time, all future oil and gas revenue would be distributed to the state General Fund; lawmakers have the most discretion making appropriation decisions involving the General Fund. Annual interest and earnings of the Michigan Natural Resources Trust Fund (MNRTF) and the MSPEF would continue to be available for expenditure subject to legislative appropriation.

If Proposal 1 is Adopted, after the MSPEF principal balance reaches its \$800 million ceiling, all future oil and gas revenue would be deposited in the MNRTF instead of the state General Fund. The MNRTF's current \$500 million cap would be eliminated to allow future revenue to flow to this fund in perpetuity. The legislature would be allowed to appropriate up to 50 percent of the oil and gas revenue annually for MNRTF projects and the remainder of the revenue would be credited to the principal balance of the trust fund, thereby providing an ongoing revenue stream to allow the corpus of the fund to grow in perpetuity.

Major Issues to Consider Proposal 1 is a question on the use and sufficiency of oil and gas revenues for various conservation, environmental, and recreational purposes. The MNRTF and MSPEF were created as permanent funds in the Michigan Constitution to dedicate annual oil and gas revenue from state-owned land until each fund reaches specific principal amounts. These amounts represent the corpus of each fund and are not allowed to be spent, but interest earnings may be spent according to constitutional provisions. The MNRTF balance reached its \$500 million limit in 2011 and the MSPEF is projected to hit its \$800 million ceiling sometime in the early 2050s. After that time, all future oil and gas revenue would be deposited in the state General Fund. Proposal 1 asks voters to eliminate the MNRTF cap and designate all future revenue to the MNRTF to allow the corpus of the fund to grow in perpetuity and provide additional resources for natural resource, conservation, and recreation projects.

On November 3, 2020, Michigan electors will be presented with a legislatively proposed amendment to the state Constitution. Proposal 1 would amend Article IX, Sections 35 (Michigan Natural Resources Trust Fund (MNRTF)) and 35a (Michigan State Parks Endowment Fund (MSPEF)) to make the following changes with respect to natural resource and state park funding:

- After the MSPEF reaches its accumulated principal cap of \$800 million, direct all revenue generated from oil and gas bonuses, rentals, and royalties from state-owned land to the MNRTF.
- Eliminate the MNRTF's \$500 million accumulated principal cap.
- Limit to 50 percent the amount of MNRTF revenue received each year, in addition to the fund's interest and earnings, that the legislature may appropriate for the acquisition and development of trust fund projects.
- Allow MNRTF interest and earnings to be spent on "renovation and redevelopment" in addition to "development" of public recreational facilities.
- Require a minimum of 25 percent of the money

available from the MNRTF (as opposed to the current 25 percent maximum) to be spent on development of public recreational facilities.

- Add “administration of the endowment fund” to the allowable purposes of the MSPEF.
- Require a minimum of 20 percent of the money available from the MSPEF each year to be spent

on capital improvements at state parks.

The implementing statutory provisions for the proposed constitutional amendment are contained in a package of state laws tie-barred together (Public Acts 597 to 599 of 2018); these laws will not take effect unless Proposal 1 is approved in the November election.

Background

The origin of the MNRTF dates back to 1976 and the creation of its predecessor, the Recreational Land Acquisition Trust Fund, to receive revenue generated from oil and gas bonuses, rentals, and royalties from state-owned land. The basic concept was to establish a self-perpetuating fund to receive revenues from state-owned, non-renewable resources to acquire land for hunting, fishing, or other recreational purposes for the benefit of future generations.

A number of fund diversions initiated by the legislature in the late 1970s and early 1980s prevented the fund from achieving its original target balance of \$150 million. The diversions for unrelated state purposes (e.g., to balance the state General Fund budget) prompted legislative action to protect the fund by giving it constitutional status. In November 1984, with the approval of Proposal B voters amended the Michigan Constitution to create the MNRTF (Section 35, Article IX) and restrict the uses to which the revenues of the fund could be put.¹ By placing it in the Constitution, the MNRTF was established as a “permanent fund,”^a effectively ensuring that the fund’s corpus would be protected from future legislative diversions.

Additionally, Proposal B increased the principal cap

of the MNRTF from \$150 to \$200 million and allowed the legislature to appropriate up to one-third of the revenue received each year, in addition to interest and earnings, to purchase land, develop recreational facilities, and administer the fund. It allowed the legislature to authorize annual transfers of trust fund revenues to the Michigan Strategic Fund, in part to pay debt service on economic development bonds.

In 1994, voters approved Proposal P, an amendment to MNRTF provisions in the Michigan Constitution.² It did three things: 1) eliminated the diversion of trust fund revenues to the Michigan Strategic Fund because the bonds backed by this revenue were repaid; 2) increased the principal balance cap of the MNRTF from \$200 to \$400 million; and 3) created the Michigan State Parks Endowment Fund (MSPEF) in Section 35a of Article IX to receive the lesser of \$10 million or 50 percent of the total oil and gas royalty revenue received each year until the MNRTF reached its new balance of \$400 million.

The creation of the State Park Endowment Fund was intended to provide a permanent source of revenue to support the improvement of the state’s deteriorating parks system. To this end, the proposal provided that the endowment fund would receive all revenue designated to the MNRTF after it reached its \$400 million principal cap. The MSPEF accumulated principal cap was set at \$800 million, adjusted annually by inflation once it reaches this cap. When

^a There are five governmental fund types. “Permanent funds” are legally restricted to the extent that only interest earnings, and not principal, may be used for purposes that benefit the government or its citizenry.

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the endowment fund reaches this ceiling, all MNRTF revenues, exclusive of interest and earnings, would be distributed to the state General Fund.

Once again, in 2002, voters approved Proposal

2002-2, which amended the MNRTF provisions in the Michigan Constitution to increase the principal cap of the fund to \$500 million.³ The trust fund reached its constitutional limit in 2011. Since that time, all oil and gas revenue has been deposited in the MSPEF.

Proposal 1

The basic issue to consider with Proposal 1 is whether future revenue generated from oil and gas bonuses, rentals, and royalties from state-owned land should be earmarked to the Michigan Natural Resources Trust Fund or deposited in the state General Fund. To this end, Proposal 1 would change two key provisions related to: 1) the MNRTF's \$500 million principal ceiling; and 2) the future disposition of oil and gas revenue after the MSPEF reaches its \$800 million principal limit. Additionally, there are a number of provisions related to the allowable uses and distribution formula of oil and gas revenue received by the MNRTF and MSPEF.

Eliminate MNRTF Ceiling

Over the last 44 years, the accumulated principal cap of the MNRTF has been increased from \$150 to \$500 million. The trust fund reached its ceiling in 2011, approximately eight years after the 2002 statewide vote to raise it from \$400 to \$500 million. This money represents the corpus of the fund and cannot be spent; however, interest and earnings are available for annual appropriation for the acquisition of land for recreational purposes, development of public recreation facilities, and administration of the fund. The MNRTF earned approximately \$45 million of interest and earnings in 2019, all of which was available for appropriation.

Proposal 1 would eliminate the MNRTF's principal limit, allowing the corpus of the fund to grow with future deposits of oil and gas revenues. Allowing the corpus to grow would result in more interest and earnings and thus additional annual funding for trust fund projects.

Disposition of Future Oil and Gas Revenue

Currently, all oil and gas revenue will be deposited in the MSPEF until it reaches its \$800 million accu-

mulated principal cap. As of September 30, 2019, the fund's principal balance was \$273 million. The Michigan Department of Natural Resources projects that the fund will reach its \$800 million cap sometime in the 2050s. At that time, the current constitutional language requires that all oil and gas revenue shall be distributed "as provided by law." This means the revenue would be deposited in the state General Fund; the state's primary operating fund. It receives all state revenue not accounted for in other funds.

Proposal 1 would redirect the future revenue stream from the General Fund to the MNRTF. Because the proposal also eliminates the MNRTF's \$500 million ceiling, future oil and gas revenue would be allowed to flow this fund.

Uses of Oil and Gas Revenue

Proposal 1 expands the allowable uses of money deposited in both the MNRTF and the MSPEF as well as changes the allocation of funds among different project types.

Specifically, "renovation and redevelopment" would be added to the "development" category as an allowable use for MNRTF-financed public recreation projects. Currently, projects are designated as either "development" or "acquisition." Expanding the "development" category would allow additional recreational project types to be considered for funding. Additionally, this change would recognize the fact that many facilities have reached their useful design lives and have become worn out or obsolete. Renovating or redeveloping existing facilities would be a more cost-effective way to provide additional public recreational opportunities across the state.

Proposal 1 also increases the percentage of annual funding that must be allocated for MNRTF "development, renovation, and redevelopment" projects.

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Currently, the Constitution limits development project funding to no more than 25 percent of annual funding. Proposal 1 changes this ceiling to a floor by requiring not less than 25 percent of the annual trust fund revenue to be directed to these projects. This change would mirror the current funding floor for “acquisition” projects.

Also, when the MNRTF resumes receiving annual oil and gas revenues sometime in the 2050s, Proposal 1 limits to 50 percent the amount that the legislature may appropriate for eligible projects. This is the same limitation on the amount of annual MSPEF

revenue that can be appropriated for state park projects. The 50 percent limit does not apply to annual interest and earnings; all of these funds are available for appropriation.

Finally, the proposal would require that at least 20 percent of the money made available for expenditure from the MSPEF each year go towards capital projects at state parks. Currently, there are no requirements on how funding must be allocated. With this funding floor in place, no more than 80 percent would be available for land acquisition, operations and maintenance, and administration of the endowment fund.

Issues to Consider

Proposal 1 deals with the use and sufficiency of oil and gas revenue generated on state-owned land. Forty-four years ago, this revenue was earmarked, until certain amounts were deposited in two funds, to acquire land and to develop facilities for recreational purposes to serve current and future generations. Since that time, \$500 million has been deposited in the corpus of the MNRTF and \$273 million deposited in the corpus of the MSPEF. Another, \$1.2 billion has been spent on MNRTF projects across the state over this time.

The issue before voters is whether the cap on deposits to the MNRTF should be removed and all annual oil and gas revenue continue to be earmarked for recreational, conservation, and environmental purposes or should the revenue be directed to the state General Fund once the cap is hit (sometime in the 2050s). Once in the General Fund, lawmakers would have full discretion to allocate the revenue as

they deem appropriate through the budget-making process. On the other hand, earmarking this revenue in the state constitution effectively removes it from annual discretionary budget decisions, providing policymakers with fewer resources to meet a seemingly endless list of funding priorities.

Given a host of unknowns at this time, it is nearly impossible to predict what will be the State of Michigan’s most pressing budget needs in the future and whether this revenue would be best used for MNRTF projects or other state priorities that could be financed by the General Fund. Earmarking future state revenue, especially funding that will not be available for some 30 years from today, will tie future lawmakers’ hands when it comes to making budget decisions. Proposal 1 might ensure funding for MNRTF projects in perpetuity, but it does so at the expense of all other current and future state-funded programs or projects.

Endnotes

1 Citizens Research Council of Michigan, Council Comments 950, *State Ballot Issues: Proposal A — Legislative Review of Administrative Rules; Proposal B — Natural Resources Trust Fund* (October 1984) <https://crcmich.org/publications/state-ballot-issues-proposal-a-legislative-review-of-administrative-rules-proposal-b-natural-resources-trust-fund>

2 Citizens Research Council of Michigan, Council Comments 1030, *Statewide Ballot Proposals — I: Proposal*

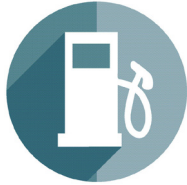
P — Natural Resources Trust Fund — State Parks Endowment Fund (September 1994) <https://crcmich.org/publications/statewide-ballot-proposals-i-proposal-p-natural-resources-trust-fund-state-parks-endowment-fund>

3 Citizens Research Council of Michigan, Council Comments 1062, *State Ballot Issues on the August Primary Ballot* (June 2002) <https://crcmich.org/publications/state-ballot-issues-on-the-august-primary-ballot>

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