

Michigan Natural Resources Trust Fund

A Short Summary of the Purpose and Impact of the MNRTF

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TO: Policy Makers and Interested Parties

FROM: Steve Arwood, Executive Director

Background

The Michigan Natural Resources Trust Fund was born out of the debate that the people of the State of Michigan should benefit in some long-term tangible way from the extraction of resources on land the public owns.

Michigan owns nearly 3.8 million acres of surface and sub-surface property rights. Additionally, the state owns approximately 2.1 million acres of sub-surface rights. Most of this property was gained through tax reversions beginning with the vast lumber cut-off of the late 1800's (cut and leave) through the Great Depression and the close of World War II.

After World War II, attention turned to minerals (largely oil and gas). Most of the highly significant deposits lay below public land due to the tax reversion process. The policy of extracting non-renewable resources from public property, and related damage caused to the surface areas and watersheds, sparked large debate. The debate came to a head with drilling in the Pigeon River Valley in the 1970's.

The MDNR, the Michigan oil and gas industry, the Michigan United Conservation Clubs and the legislature devised a program that would capture revenues from the lease of public mineral interests and place those revenues in a trust to finance the expansion of conservation and outdoor recreation in the state of Michigan; a long-term perpetual funding program and one that was unique to Michigan. The fund was established in 1976 and was known as the "Kammer Recreational Land Trust Fund" (PA 204 of 1976). House Joint Resolution M was approved by the voters in 1984 which established the Michigan Natural Resources Trust Fund in the Michigan Constitution at section 35, article IX.*

* The public overwhelmingly supported ballot questions in 1994 and 2002 designed to strengthen the MNRTF.

Operations of the Fund

The fund is managed by a board of trustees consisting of 5 individuals, 4 which are appointed by the governor. One of the members of the fund is the Director of the MDNR, or a member of the Natural Resources Commission, chosen by the commission. Four members represent the general public and are subject to advice and consent of the Senate.

By the constitution, the fund is placed within the Department of Natural Resources for staffing and administration. Public Act 451 of 1994, Part 19, is the enabling statute for fund operations.

Flow of Funds

The State of Michigan sells the rights to extract non-renewable resources from state property. Revenue from the sales are primarily in the form of bonuses, rentals and royalties received through state oil and gas “leases.” This revenue flows to the MNRTF.

Total revenue is dispersed in the following manner:

- One-third of the revenue is retained by the MNRTF for projects, two-thirds deposited into the MNRTF “corpus.”
- Interest earnings from the corpus are retained by the MNRTF for projects.
- A yearly transfer of \$10 million is made to the State Parks Endowment Fund.

Yearly project funds of the MNRTF are the sum of 1/3 of the revenue received and 100% of the interest earned by the corpus. This revenue formula is directed by the constitution.

Project Funds

The MNRTF funds (2) types of projects. 1. Acquisition of land or rights in land (e.g. purchasing conservation easements.) 2. Development of public recreation projects and facilities.

The constitution stipulates that not more 25% of projects funded will be for development projects, the remainder to be used for acquisition.

Applications to the Fund and Grant Making Process

The trustees must ensure that projects receiving grants meet the following constitutional requirements:

“...acquisition of land or rights in land for recreational uses or protection of the land because of its environmental importance or its scenic beauty, for the development of public recreation facilities....”

Section 35, Article IX of Michigan Constitution.

The trustees have full responsibility for discharging the constitutional mandate on uses of funds. The constitution and statute were quite silent on selection of projects to fund, so to do this, the trustees have established a yearly project application procedure that must be completed by any applicant to the fund. The applications are scored on trustee approved criteria that measure the value of the natural resources to be protected, specific natural resource needs (e.g. headwaters areas and winter deer yards), community needs for recreation opportunities, and a balance of supporting criteria. Over the years, this process has evolved periodically to reflect changing public needs and demand in outdoor recreation, public access, and resource conservation.

Projects are scored in the categories of acquisition and development. Generally, the last meeting of the calendar year is used as the funding meeting. The trustees are presented with a scoring sheet reflecting all projects and the rank that they were scored. The trustees deliberate the project list and make determinations on funding. The scoring is used as a guide, but is not indicative of funding. Trustees have the ability to fund any project as long as it is qualified application, supported by the MNRTF mission and a majority of the trustees. (This application and process information can be found on the MDNR website, MNTF page.)

Once recommendations are complete, the list is transferred to the executive office and then sent to the legislature in the form of an appropriation request.

Qualified Applicants

The constitution allows local units of government and the State of Michigan to be applicants to the fund. The MDNR acts as the principle applicant on behalf of the state.

The MDNR is both staff and client of the fund. The MDNR must apply for funds and be scored through the same process as any local unit of government. Historically, the MDNR staff responsible for scoring projects has been housed in the Grants Division, which has traditionally put up a fire-wall to the rest of MDNR due to the nature of their work. Questions of transparency arise yearly, but the observation is trustees have been diligent in insuring that the process works as well as it can.

Statute requires qualified applicants to provide a match of a minimum of 25% of the total grant request.

Demand for Funding

Over the last 2-3 years, total yearly demand for funding has averaged approximately \$100 million. The MNRTF has been able to fund approximately 25-30 percent of demand.

Impact of the Fund

Since 1976, approximately \$600 million dollars has been spent on furthering the constitutional mandate of the MNTRF. This money has been spent in every county in Michigan and represents every conceivable outdoor recreation activity from multi-use county parks, snowmobile trail right-of-way, boat launches, state campground expansions, city river walks, to purchasing the tip of the Keweenaw.

The entire list of projects funded by the MNRTF by county is found on the MDNR website on the MNRTF page. Each county has a listing of projects completed since the inception of the fund.

Common Misconceptions about the Fund

First, it is often assumed that the MNRTF just purchases state land, or, the MDNR “gets all the money.” This is false. The MNRTF grants money to local units of government to buy their own recreation property and to develop their own facilities. The above list indicates what was purchased or developed within each county and the organization receiving the funding. Where a county, township or municipality is listed, this was a grant to the local unit. For these projects, the state has no further responsibility for operating or maintaining. For projects in counties listed as MDNR, these are additions to state holdings or developments such as campgrounds or boat launches. The MNRTF has historically made payment-in-lieu of tax payments on all purchases originating from the fund.

Second, it is often confused that the MNRTF spends “tax dollars” to expand state holdings. The MNRTF operates as a perpetual trust funded by the extraction of non-renewable resources from the people’s lands. There is no general fund taxation, state land user fee, or other general levy at work within the fund. It is true that state holdings purchased with MNRTF money require a state obligation long-term in the form of management costs, but the fund operates with no burden to the general public.

Third, many have perceived the MNRTF as a source of funding (especially in down budget cycles) for programs or projects not central to the constitutional mission. The 1984 initiative which put the MNRTF into the Michigan Constitution was a protective measure designed to perpetuate the fund far into the future. Changes in the use of funds would require a change in the constitution.

Last, it is often stated that the fund does not take into account the needs of specific groups or regions. Over the course of many years the fund has met the needs of a changing populace in a remarkable way. One such example is converting abandoned rail beds into community connecting “rails-to-trails” for a multitude of uses. On the resource conservation front, the fund has moved from the concept that state acquisitions must be absolute ownership into the now accepted practice of purchasing conservation easements that ensure public access in perpetuity without the associated costs of holding land.

The fund has moved remarkably well with the challenges it has faced over 30 years and a program that cannot satisfy 100 percent of the applicants will be criticized to some degree.

Conclusions

The MNRTF has been a tremendous success and is the envy of other states. Any government program that enjoys long-term success and widespread support has several factors working in its favor. For the MNRTF, they seem to be the following:

- Soundness of original design and the constant commitment of all stakeholders to its preservation.
- Financial mechanism that is perpetual and does not burden the general population, or the general budget.
- Overwhelming support by Michigan citizens for public recreation and access to natural resources.
- “Institutionalization” of the MNRTF into the fabric of Michigan conservation policy by 30 years of legislative and administrative support.
- Constitutional protection of the process and funds.
- A history of selecting projects that satisfies the delicate balance between local communities, the state as a whole, and the recreating public.

The MNRTF exists due to the extraction of non-renewable resources from state holdings. There will be a future when these non-renewable resources decline. Finding a way to perpetuate the MNRTF, or its successor, will be a challenge for policymakers. Whatever the future holds, it appears that a roadmap to success has already been drawn.