



NOVEMBER  
2020  
BALLOT PROPOSAL  
20-1

An Overview

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On November 3, 2020, Michigan voters will decide whether to adopt a constitutional amendment to allow money from oil and gas mining on State-owned lands to be collected for land protection, creation and maintenance of parks, nature areas, and recreational facilities. Proposal 20-1 is the result of Senate Joint Resolution O, which was approved by more than two-thirds of the Michigan Senate and House of Representatives in 2018. Proposal 20-1 will appear on the ballot as follows:

### **Proposal 20-1**

**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.**

This proposed constitutional amendment would:

- 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.

Should this proposal be adopted?

YES [ ]

NO [ ]

If a majority of the voters vote "yes" on Proposal 20-1, Article XI, Sections 35 and 35a of the State Constitution will be amended to include the proposed language. Additionally, if Proposal 20-1 is approved, Public Acts (PAs) 597, 598, and 599 of 2018 will go into effect.

### **Michigan Natural Resources Trust Fund**

Article IX, Section 35 of the Michigan Constitution establishes the Michigan Natural Resources Trust Fund (MNRTF). The MNRTF consists of revenue from all bonuses, rentals, delayed rentals, and royalties collected or reserved by the State under provisions of leases for the extraction of nonrenewable resources, such as oil, gas, and minerals, from State-owned land, excluding revenue accruing under leases of land acquired with money from other specified funds. The assets of the MNRTF must be invested as provided by law.

Proposal 20-1 would eliminate two requirements within Article IX that refer to the current \$500.0 million cap on accumulated principal within the MNRTF. First, the MNRTF currently has an accumulated principal limit of \$500.0 million. That limit was reached in 2011. Before that limit was reached, \$10.0 million of revenue that the State received each fiscal year from the sources described above had to be deposited into the Michigan State Parks Endowment Fund (MSPEF), and in any State fiscal year, a maximum of 50% of the total revenue otherwise dedicated to the MNRTF had to be deposited into the MSPEF. Second, once the \$500.0 million limit was reached, all revenue from bonuses, rentals, delayed rentals, and royalties that the MNRTF received had to be deposited into the MSPEF until it reached its accumulated principal limit of \$800.0 million. (As mentioned above, the MNRTF reached the \$500.0 million limit in 2011, limiting subsequent annual expenditures to interest and investment earnings, and funding carried forward from previous years.)

Proposal 20-1 provides that, until the MSPEF reached the \$800.0 million limit, the revenue from bonuses, rentals, delayed rentals, and royalties that otherwise would be deposited into the MNRTF would have to be deposited into the MSPEF. (Currently, the interest and earnings of the MNRTF must be spent for the 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, and for the administration of the MNRTF, which may include payments in lieu of taxes on State-owned land purchased through the MNRTF.)

Proposal 20-1 specifies that until the MSPEF reached the \$800.0 million limit, the amount accumulated in the MNRTF could not exceed \$500.0 million, exclusive of interest and earnings and amounts authorized for expenditure. The accumulated principal of the MNRTF could not be spent; however, the interest and earnings of the MNRTF still would have to be spent on the items listed above. Proposal 20-1 would expand the "development of public recreation facilities" to include renovation and redevelopment of public recreation facilities.

Currently, once the MNRTF reached the \$500.0 million limit, the Legislature may provide that a portion of the revenue, not to exceed 33-1/3%, from bonuses, rentals, delayed rentals, and royalties received by the MNRTF during each fiscal year may be spent during subsequent State fiscal years. However, this provision has not applied since 2011, when the MNRTF cap was reached. Proposal 20-1 deletes this provision.

Instead, Proposal 20-1 provides that, after the MSPEF reached the \$800.0 million limit, the revenue from bonuses, rentals, delayed rentals, and royalties would have to be deposited in the MNRTF. The Proposal would eliminate the MNRTF's current \$500.0 million cap to allow this revenue to be deposited back into the Trust Fund. From this revenue, the Legislature could provide, each year, in addition to the expenditure of interest and earnings authorized by Section 35, that a portion, not to exceed 50%, could be spent during subsequent State fiscal years for the purposes of Section 35. (Currently, the Legislature may distribute the revenue as provided by law.)

Currently, money from the MRTF may be spent each fiscal year under the following allocations:

- A minimum of 25% of the total amounts available for expenditure for acquisition of land and rights in land.
- A maximum of 25% of the total amounts made available for expenditure may be spent for development of public recreation facilities

Proposal 20-1 provides, instead, for the following:

- A minimum of 25%; would have to be spent for acquisition of land and rights in land for recreational uses or protection of the land because of its environmental importance or its scenic beauty.
- A minimum of 25%; would have to be spent for development, renovation, and redevelopment of public recreation facilities.

### **Michigan State Parks Endowment Fund**

Article IX, Section 35a establishes and provides for the Michigan State Parks Endowment Fund. The MSPEF consists of revenue as provided in Section 35 (discussed above), and as provided by law. The accumulated principal of the MSPEF may not exceed \$800.0 million, which must be annually adjusted according to the rate of inflation beginning when the Fund reaches \$800.0 million. This annually adjusted figure is the accumulated principal limit of the MSPEF.

Michigan State Parks Endowment Fund money that is available for expenditures must be spent for operations, maintenance, and capital improvements at State parks and for the acquisition of land or rights in land for State parks. Under Proposal 20-1, money also would have to be spent for the administration of the Fund. At least 20% of the money made available for expenditure from the Fund from any State fiscal year would have to be spent for capital improvements at State parks.

Section 35 provides for the establishment of the Michigan Natural Resources Trust Fund Board within the Department of Natural Resources. The Board must recommend projects to be funded and submit its recommendations to the Governor, who must submit the Board's recommendations to the Legislature in an appropriations bill. Under the Proposal, the Board also would be required to recommend the local public recreation projects to be funded by the MSPEF.

### **Related Legislation**

In 2018, PAs 597, 598, and 599 were enrolled but will not take effect unless Prop 20-1 is passed by voters. Taken together, the Public Acts largely incorporate the constitutional changes that Prop 20-1 would make, if passed, into the Natural Resources and Environmental Protection Act.<sup>1</sup>

### **Fiscal Impact**

Proposal 20-1 would have an overall neutral fiscal impact on the State and local units of government but would make some changes to the disposition of revenue for two constitutionally created funds: the Michigan Natural Resources Trust Fund and the Michigan State Parks Endowment Fund.

The Michigan Constitution currently specifies that once the \$800.0 million cap on the MSPEF is reached, the revenue must be distributed as provided by law. Proposal 20-1 specifies that once the MSPEF reached a corpus balance of \$800.0 million, any future oil and gas lease and royalty revenue would revert to the Michigan Natural Resources Trust Fund, and that the Legislature could appropriate up to 50% of that revenue for MNRTF projects each year. The other 50% of the revenue would have credited to the corpus balance of the MNRTF, which is currently limited to \$500.0 million per the Michigan Constitution. Proposal 20-1 would remove the \$500.0 million cap on the MNRTF after the balance of the MSPEF reached \$800.0 million.

It is difficult to predict when this could happen, as the revenue the State receives from oil and gas royalties depends upon prices in the notoriously volatile oil and gas commodity markets. However, over the last five years, the State has received an average of about \$27.7 million in oil and gas royalty revenue each year. Assuming this level of revenue annually and that the Legislature would opt to appropriate the full 50% of royalties and all MSPEF interest and earnings as allowed under the Constitution, the MSPEF would reach its \$800.0 million maximum corpus balance in 2056. This projection comes with the caveat that another spike in commodity prices like the one that occurred in the late 2000s could remove several years from the estimate.

Proposal 20-1 would modify how the MSPEF could be spent by specifying that at least 20% of MSPEF expenditures would have to be made for capital improvements, and that MSPEF money also would have to be used for the operation and maintenance of State parks, acquisition of land or rights in land for State parks, and administration of the MSPEF itself. These requirements would not significantly change overall funding for State parks.

Finally, Proposal 20-1 would change how interest and earnings on the \$500.0 million corpus balance of the Michigan Natural Resources Trust Fund could be spent. The Michigan

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<sup>1</sup> MCL 324.101 et seq.

Constitution and statute currently specify that at least 25% of funds made available for expenditure each year must be spent on acquisition projects and that not more than 25% must be spent on development projects. The Proposal would change these allocations to require not less than 25% to be spent on both acquisition and development projects, respectively. This change would have a neutral fiscal impact as it would not affect the sum total of funds the MNRTF Board would be able to recommend for expenditure nor how much the Legislature would be able to appropriate, but it would allow the MNRTF Board to recommend up to 75% of funds be made available for spending on either acquisition or development projects as long as a minimum of 25% were spent on the other project type.

As a point of reference, in most years the MNRTF Board receives applications for slightly more acquisition projects on a dollar basis than it does development projects, but not at a ratio that would satisfy the current 75/25 split between acquisition and development. For this reason, the MNRTF Board typically is forced to deny applications for many development projects, and to limit the maximum grant amount for a development project to \$300,000. The passage of Proposal 20-1 would not require the MNRTF Board to recommend additional development projects or to raise the maximum grant amount from \$300,000, but it would remove one the primary factors that has caused the Board to adopt those policies in the past.