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BILL ANALYSIS

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Senate Bills 931 and 932 (as introduced 4-11-18)
Sponsor: Senator Goeff Hansen (S.B. 931)
Senator Darwin L. Booher (S.B. 932)
Committee: Natural Resources

Date Completed: 4-11-18

**CONTENT**

**Senate Bill 931 would amend Part 741 (State Parks System) of the Natural Resources and Environmental Resources Act to do the following:**

**-- Expand the purposes for which money in the Michigan State Parks Endowment Fund (MSPEF) may be spent, and allow the Fund to provide grants to local units of government or public authorities for public recreation projects.**
**-- Provide that not more than 25% of the expenditures from the MSPEF for local public recreation projects could be for the prevention and management of aquatic invasive species that adversely affect recreational opportunities.**
**-- Require that, until the MSPEF reached $800.0 million, 25% be retained by the Fund; at least 50% be made available for State parks and the acquisition of park land; and at least 20% be made available for local public recreation projects.**
**-- Provide that, once the MSPEF reached $800.0 million, only the interest, earnings, private contributions or other revenue could be spent for the operation, maintenance, and improvement of parks and administration of the Fund.**

**Senate Bill 932 would amend Part 741 to define "local unit of government or public authority" as a county, city, township, village, school district, the Huron-Clinton Metropolitan Authority, or any authority composed of counties, cities, townships, villages, or school districts, or any combination of them, that is legally constituted to provide public recreation.**

The bills are tie-barred to each other and to Senate Bill 763, which would make generally the same amendments to Part 741 as proposed by Senate Bill 931 and would amend Part 35 (Michigan Natural Resources Trust Fund). All of the bills are tie-barred to Senate Joint Resolution O, which would amend provisions of the State Constitution governing the Michigan Natural Resources Trust Fund. (Proposed changes regarding the Trust Fund are discussed in the fiscal analysis below.) If approved by a two-thirds vote of each house of the Legislature, the joint resolution would have to be submitted to the electors of the State at the next general election.

Senate Bill 931 is described in detail below.

In accordance with Section 35a of Article IX of the Michigan Constitution, Part 741 creates the MSPEF within the State Treasury. The accumulated principal of the MSPEF must not exceed $800.0 million. That amount must be annually adjusted pursuant to the rate of inflation beginning when the MSPEF reaches $800.0 million. This annually adjusted figure is the accumulated principal limit of the MSPEF.

Money available for expenditure in the MSPEF as provided above must be spent for operations, maintenance, and capital improvements at Michigan State parks and for the acquisition of land or rights in land for the parks.

Under the bill, money available for expenditure from the MSPEF also would have to be spent for the administration of the Fund and for local public recreation projects conducted by local units of government and public authorities that provided for one or more or the following:

-- The development, redevelopment, and renovation of motorized and nonmotorized trails and related infrastructure.
-- The control and prevention of aquatic invasive species.
-- The development, redevelopment, and renovation of local public recreation facilities.

Not more than 25% of the expenditures from the MSPEF for local public recreation projects could be for the prevention and management of aquatic invasive species that adversely affect recreational opportunities.

Currently, money in the MSPEF must be spent as follows:

-- Until the MSPEF reaches an accumulated principal of $800.0 million, each State fiscal year the Legislature may appropriate up to 50% of the money received under Article IX plus interest and earnings and any private contributions or other revenue to the MSPEF.
-- Once the accumulated principal in the MSPEF reaches $800.0 million, only the interest and earnings of the MSPEF in excess of the amount necessary to maintain the Fund's accumulated principal limit may be made available for expenditure.

Under the bill, until the MSPEF reached an accumulated principal of $800.0 million, each State fiscal year the Legislature would be required to allocate the money received under Article IX as follows:

-- 25% would have to be retained by the MSPEF and credited to the accumulated principal of the Fund.
-- At least 50% would have to be made available for expenditure for operations, maintenance, and capital improvements at Michigan State parks and the acquisition of land and rights in land for the parks.
-- At least 20% would have to be made available for expenditure for local public recreation projects.

Until the MSPEF reached an accumulated principal of $800.0, the Legislature could appropriate the money made available for expenditure, plus interest and earnings and any private contributions or other revenue to the MSPEF.

Once the accumulated principal in the MSPEF reached $800.0 million, only the interest and earnings of the MSPEF and any private contributions or other revenue received by the Fund in excess of the amount necessary to maintain its accumulated principal limit could be made available for expenditure for the following:

-- Operations, maintenance, and capital improvements at Michigan State parks.
-- The administration of the MSPEF.

The bill also provides that an expenditure from the MSPEF could be made in the form of a grant to a local unit of government or public authority, subject to all of the following conditions:

-- The grant was used for a local recreation project, as described above.
-- The grant was matched by the local unit of government or public authority with at least 25% of the total cost of the project.

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**FISCAL IMPACT**

Senate Bill 932 would have no fiscal impact on the State or local government. Senate Bill 931 by itself would have no fiscal impact as it would be contingent upon an amendment to the Michigan Constitution. However, because the bills are tie-barred to Senate Joint Resolution O, which would make the amendment necessary to implement the Senate Bill 931, the potential fiscal impact is identical to that of Senate Bill 763 and Senate Joint Resolution O, which is as follows:

In total, the fiscal impact of the bill and the amendment to the Michigan Constitution contained in Senate Joint Resolution O would have a neutral fiscal impact on the Michigan Natural Resources Trust Fund. The legislation would have a potentially positive fiscal impact on the Department of Natural Resources (DNR) and a negative impact on the amount of revenue deposited into the investment corpus of the Michigan State Parks Endowment Fund. In addition, the legislation would have a positive fiscal impact on local units of government through increased funds available for local public recreation grants.

The legislation would change how interest and earnings on the $500.0 million corpus balance of the Michigan Natural Resources Trust Fund may be spent. The Michigan Constitution and statute currently specify that not less than 25% of funds made available for expenditure each year be spent on acquisition projects and that not more than 25% be spent on development projects. The legislation would require that not less than 25% be spent on both acquisition and development projects, respectively. This change would have a neutral fiscal impact as it would not affect the total amount of funds the MNRTF Board may recommend for expenditure or how much the Legislature may appropriate, but it would allow the MNRTF Board to recommend up to 75% of funds made available to be spent on either acquisition or development projects as long as a minimum of 25% was spent on the other project types. For example, the MNRTF Board recommendations that were made for application year 2017 (fiscal year 2017-18) projects included $21.4 million for acquisition projects and $19.0 million in development projects. In making that recommendation, the Board made available $76.0 million; therefore, under current law, not less than $19.0 million had to be for acquisition projects and not more than $19.0 million could be for development projects. Under the legislation, the Board would have been able to recommend expenditures of up to $57.0 million for either project category so long as the other category received at least $19.0 million. From a practical standpoint, this would allow the Board to recommend more development projects, as in recent years the Board has recommended funding all of the acquisition project applications it has received, but not all of the development projects. Using application year 2017 as an example, all 34 of the acquisition applications received were recommended for funding, but only 89 of the 132 development applications were recommended for funding.

The legislation generally would affect the treatment of gas and oil lease and royalty revenue that is currently credited to the Michigan State Parks Endowment Fund. Under current law, until the investment (corpus) balance of the MSPEF reaches $800.0 million, the Legislature may appropriate up to 50% of gas and oil revenue received each year for the operations and maintenance of State parks. This revenue stream varies greatly from year to year as it is heavily dependent on the price of oil and gas in commodity markets. In recent years, the State has received between $25.0 million and $50.0 million annually, but in the past, some years have totaled $100.0 million or higher. Gas and oil revenue that is not appropriated is credited to the corpus balance of the MSPEF from which it cannot be spent, but is instead used to produce investment returns to support State parks in perpetuity. The corpus balance of the MSPEF is currently about $256.0 million.

The legislation would potentially increase the amount of oil and gas royalty revenue the DNR could use for operations and maintenance in State parks. Currently, the Michigan Constitution and statute allow for the Legislature to appropriate up to 50% of gas and oil lease and royalty revenue to be used to support State parks. The legislation would effectively allow the Legislature to appropriate up to 55% of that revenue for this purpose. Assuming the Legislature opted to appropriate this additional amount, the DNR could receive an additional $1.3 million to $2.5 million[1] for operations and maintenance of State parks each year.

The legislation would reduce future deposits into the corpus balance of the MSPEF from 50% of oil and gas royalty revenue to 25%. This would reduce the long-term growth in both the corpus balance and investment returns of the MSPEF. Under current law, the annual deposit to the MSPEF corpus is between $12.5 million and $25.0 million[1]; that amount would be reduced to between $6.3 million and $12.5 million[1]. It should be noted that this would not affect the current corpus balance, which is about $256.0 million, nor would it affect investment revenue that is currently received. This change would affect only the growth of these items.

The legislation would create a new category of allowable expenditures for the MSPEF, and require the Legislature to allocate at least 20%, but not more than 25%, of oil and gas revenue to local public recreation projects. Assuming the Legislature appropriated the full 25% (which would preclude the 5% increase to State parks discussed above), local units of government could receive a total of $6.3 million to $12.5 million in local public recreation grants each year. These projects would be chosen in a manner similar to the one used for projects funded by the Michigan Natural Resources Trust Fund.

Finally, 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. The legislation 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 the Legislature could appropriate up to 50% of that revenue for MNRTF projects each year, with the other 50% of the revenue being credited to the corpus balance of the MNRTF, which is currently limited to $500.0 million under the Michigan Constitution. The resolution would remove the $500.0 million cap on the MNRTF. It should be noted, however, that barring a dramatic and sustained increase in oil and gas commodity prices, with the reduction in the amount of oil and gas revenue credited to the corpus of the MSPEF under the legislation, the $800.0 million cap on the MSPEF would not be reached for decades. The changes made to the disposition of revenue following the MSPEF's cap therefore would likely not result in any fiscal impact until the 2050s or later, and at that point would be indeterminate as it is not possible to know what a future Legislature would have otherwise done with the revenue.

Fiscal Analyst: Josh Sefton

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[1] Figures assume oil and gas lease and royalty revenue of between $25.0 million and $50.0 million annually.