

Natural Resources Commission

May 8, 2008



**Monthly Spend Plan
Quarterly Revenue Report
Fund Balance Projections
Investments**

-Natural Resources Commission

Policy Committee on Finance and Administration

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May 8, 2008

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Note: The projections contained in this packet are estimates as of a point in time and will change throughout Fiscal Year 2008.

EXPLANATION OF FISCAL YEAR 2008 BUDGET AND SPEND PLAN REPORT

The report summarizes the DNR's appropriations and plans for spending for Fiscal Year 2007-2008 (October 1, 2007 through September 30, 2008). An explanation of the columns of the report follows:

Column A	The amounts appropriated for Fiscal Year 2008 operations.
Column B	All adjustments to the appropriated amounts such as legislative transfers, supplemental appropriations, Executive Orders, or excess budgetary authority where revenues are not expected to meet the appropriated amounts.
Column C	Sums the first two columns and represents the amount available to spend.
Columns D and E	The divisions' initial plans for spending and revisions, respectively. As funds are incorporated into these plans, column E will be adjusted monthly to reflect those changes.
Column F	The divisions' current plans for spending.
Column G	Amounts which have not yet been allocated to a specific plan for spending, or revenues that are being retained for future funding challenges. These amounts may or may not lapse at year-end.
Column H	Year-to-date expenditures that provide a measurement of progress, with respect to the current plans for spending.

**DEPARTMENT OF NATURAL RESOURCES
FISCAL YEAR 2008 BUDGET AND SPEND PLAN REPORT
FOR MONTH ENDING: APRIL
(Thousands of Dollars)**

	A Appropriation PA 122 of 2007	B Adjustments ¹	C (A+B) Available to Spend	D Initial Spend Plan	E Revisions to Spend Plan ²	F (D+E) Current Spend Plan	G (C-F) Estimated Remaining ²	H Year to Date Expends thru Mar.
Budget	1,034.6	(19.9)	1,014.7	955.7	58.4	1,014.1	0.6	433.7
Building Occupancy (Rent)	3,200.7		3,200.7	3,200.7		3,200.7	0.0	1,612.1
Communications	3,378.2		3,378.2	3,378.2	(0.1)	3,378.1	0.1	1,190.8
Executive	2,607.3		2,607.3	2,628.4	115.4	2,743.8	(136.5)	1,234.0
Financial Services	2,560.9		2,560.9	2,323.4	(44.4)	2,279.0	281.9	966.0
Fisheries	29,664.9	(740.0)	28,924.9	28,768.1	133.9	28,902.0	22.9	12,679.2
Forest Mineral & Fire Mgmt	38,637.0	(1,856.7)	36,780.3	36,247.6	(76.2)	36,171.4	608.9	15,840.0
Grants	34,636.9	(7,004.2)	27,632.7	27,178.4	454.3	27,632.7	0.0	9,719.0
Grants Management	1,356.0	(121.7)	1,234.3	1,197.9	13.5	1,211.4	22.9	503.1
Human Resources Call Cntr	163.0		163.0	163.0		163.0	0.0	163.0
Human Resources	2,137.7		2,137.7	2,137.7	(30.6)	2,107.1	30.6	855.0
Information Tech	8,901.7		8,901.7	8,901.7	(25.0)	8,876.7	25.0	3,367.8
Internal Audit	867.0		867.0	756.7	60.6	817.3	49.7	363.0
Land and Facilities	20,310.6	(2,944.9)	17,365.7	17,350.9	(199.1)	17,151.8	213.9	7,449.7
Law Enforcement	32,042.6	(481.1)	31,561.5	28,629.5	1,437.3	30,066.8	1,494.7	11,537.9
Parks and Recreation	63,057.5	(119.8)	62,937.7	60,089.1	380.2	60,469.3	2,468.4	19,640.7
Payments in Lieu of Taxes	14,184.1		14,184.1	14,176.2	(200.9)	13,975.3	208.8	9,726.2
Wildlife	29,454.7	(351.1)	29,103.6	28,724.5	(14.9)	28,709.6	394.0	10,512.9
Total	<u>288,195.4</u>	<u>(13,639.4)</u>	<u>274,556.0</u>	<u>266,807.7</u>	<u>2,062.4</u>	<u>268,870.1</u>	<u>5,685.9</u>	<u>107,794.9</u>

¹Column B adjustments are detailed on page 3.

² Significant column E revisions to spend plan and column G estimated remaining are detailed on page 4.

**DEPARTMENT OF NATURAL RESOURCES
NOTES FOR BUDGET ADJUSTMENTS
FOR MONTH ENDING: APRIL
(Thousands of Dollars)**

	<u>Adjustments</u>	
Budget	(19.9)	Federal Dingell Johnson \$17.8, Federal Pittman Robertson \$2.1
Fisheries	(740.0)	Federal Environmental Protection Agency (EPA) \$165.0, Fisheries Settlement \$105.5, Federal Dept of Agriculture \$9.3, Federal Dept of Interior State Wildlife Grant \$331.7, Private \$116.3, Federal Dept of Energy \$1.0, Federal Dept of Commerce \$11.2
Forest Min & Fire Mgmt	(1,856.7)	US Forest Service \$850.4, Federal Dept of Interior \$2.0, Federal EPA \$1.0, Forest Recreation Fund \$150.0, Private \$823.3, Signshop \$30.0
Grants	(7,004.2)	Federal Land and Water Conservation Fund \$1,730.9, Marine Safety Fund \$480.0, Federal Homeland Security Coast Guard \$88.2, Federal Dept of Agriculture Urban Forestry \$3,450.0, Federal Dept of Agriculture Forest Stewardship \$175.0, Private \$70.0, Federal Pass-Through Oil/Gas/Timber \$1,010.1
Grants Management	(121.7)	Federal Land and Water Conservation Fund \$121.7
Land and Facilities	(2,944.9)	Land Exchange Facilitation Fund \$1,848.1, Engineering charges \$575.2, Land transactions charges \$317.0, MacMullan Center \$204.6
Law Enforcement	(481.1)	Federal Homeland Security Coast Guard \$463.0, Federal Thunder Bay Underwater Preserve \$18.1
Parks and Recreation	(119.8)	Federal EPA \$119.8
Wildlife	(351.1)	Sportsmen Against Hunger \$207.0, Private \$112.1, Federal Chronic Wasting Disease \$31.0, Federal EPA \$1.0
Total	<u>(13,639.4)</u>	

DEPARTMENT OF NATURAL RESOURCES
NOTES FOR SIGNIFICANT SPEND PLAN REVISIONS AND ESTIMATED REMAINING
FOR MONTH ENDING: APRIL
(Thousands of Dollars)

	<u>Spend Plan Revisions</u>	
Budget	58.4	Updated payroll estimates
Executive	115.4	Primarily updated payroll estimates
Fisheries	133.9	Updated payroll estimates, Viral Hemorrhagic Septicemia (VHS) grants allocated, adjustments to university contracts and training budget, funding for Lake Bruin pier
Forest Min & Fire Mgmt	(76.2)	Updated payroll estimates, removed \$150k Pere Marquette trestle renovation (will be funded by grants), added 10 non-career limited term fire officers.
Grants	454.3	Primarily increase in Marine Safety Grants
Internal Audit	60.6	Primarily updated payroll estimates
Land and Facilities	(199.1)	Adjustments for funding in other line items, updated payroll and CSS&M estimates, partially offset by additional approx. \$300.0 to extend Electronic Data Systems (EDS) contract for the Retail Sales System
Law Enforcement	1,437.3	Update estimates for payroll (including changes in OT), travel/VTS, CSS&M/Other, equipment, and \$400.0 for MSU shooting range
Parks and Recreation	380.2	Updated payroll estimates, increased equipment spending, Communications spending
Payments in Lieu of Taxes	(200.9)	Updated based on bills received
	<u>Estimated Remaining</u>	
Executive	(136.5)	Primarily additional projected payroll expense
Financial Services	281.9	Vacancy savings
Forest Min & Fire Mgmt	608.9	Primarily Natural Resources Trust Fund, Park Endowment and Snowmobile Trail funds. Additional expenditures, dependent on program activity, may occur that could reduce the estimated remaining.
Land and Facilities	213.9	Primarily Land Exchange Facilitation Fund partially offset by a deficit in Game and Fish Fund due to EDS contract extension
Law Enforcement	1,494.7	Game and Fish Protection Fund of \$1,094.7 due to vacant conservation officer positions and \$400.0 of Wildlife Resource Protection Fund that will not be spent to keep the fund solvent
Parks and Recreation	2,468.4	\$2,468.4 will not be spent to keep the Park Improvement Fund solvent through Fiscal Year 2009
Payments in Lieu of Taxes	208.8	Expected savings based on the bills received
Wildlife	394.0	Primarily planned lapses in the Game and Fish - Deer Range Improvement Program \$196.2 and Game and Fish - Turkey \$149.1 subfunds

EXPLANATION OF FISCAL YEAR 2008 PROJECTED REVENUES REPORT

This report provides beginning available fund balances, projected revenues and spend plan information. It does **not** project ending available fund balances because capital outlay appropriations and funds carried forward from prior years (such as contracts that still had funding remaining) are not included. This report will be updated quarterly. This report complements the monthly Fiscal Year 2008 Budget and Spend Plan report (<http://www.michigan.gov/dnrbudget>).

- Column A The beginning available restricted fund balances as of October 1, 2007. These amounts will not change during the year.
- Column B Revenues that are projected for FY 2008. This column will be updated periodically. Normally, these numbers do not change very much during the year. The exception is the Forest Development Fund, which is reviewed quarterly due to ever-changing market conditions.
- Column C Revenues received and receipted into the state's accounting system at the end of each quarter. This report includes revenues through the end of March 2008. This column will be updated quarterly. Throughout the year, there will be funds that appear to be lagging behind the revenue projection, such as the Game and Fish Protection Fund, because the transfer from the Game and Fish Trust Fund will not occur until year end.
- Column D The amounts appropriated for FY 2008 by fund for operations. This column will not change, and it equals column A in the Budget and Spend Plan Report (see above for link).
- Column E All Executive Orders, supplementals, transfers, and any revenues that will not be earned during the fiscal year. This column will be updated quarterly for any changes. This column equals column B in the Budget and Spend Plan Report (see above for link).
- Column F The amount available for the divisions to spend. This is the sum of columns D and E and will update automatically. It is equal to Column C of the Budget and Spend Plan Report (see above for link).
- Column G The amount divisions are planning to spend. This column equals column F in the Budget and Spend Plan Report (see above for link).
- Column H The amounts that have not yet been allocated to a specific plan for spending, or revenues that are being retained for future funding challenges. These amounts may or may not lapse at year-end.

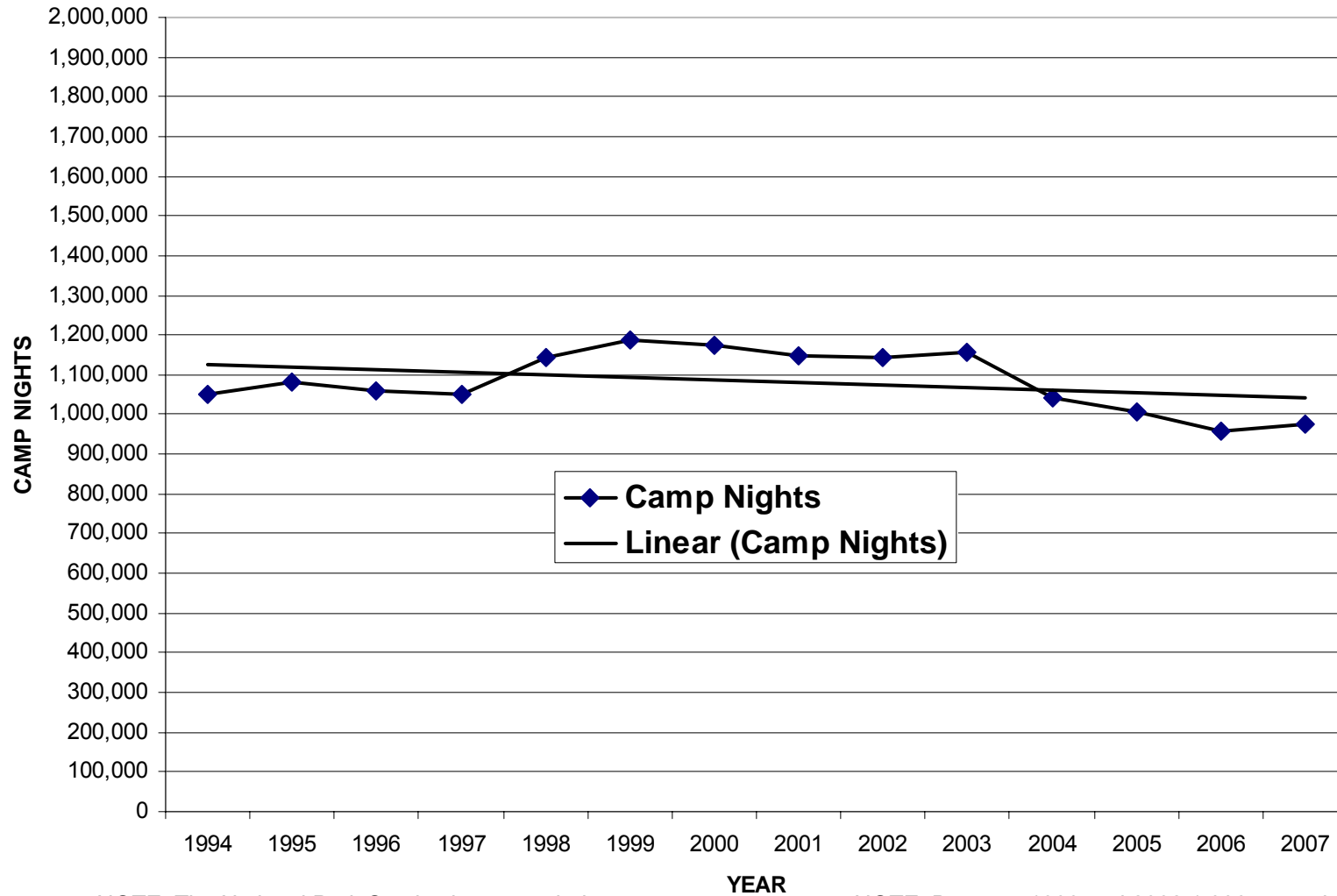
**DEPARTMENT OF NATURAL RESOURCES
FY 2008 PROJECTED REVENUES AS OF APRIL
(Thousands of Dollars)**

	A	B	C	D	E	F(D+E)	G	H(F-G)
	Beg. Avail. Fund Bal. as of 10/1/2007	Projected Annual Revenues	Year to Date Revenues through Mar.	Appropriation PA 122 of 2007	Adjustments	Available to Spend	Current Spend Plan	Estimated Remaining
<u>Federal Funds</u>								
Dept. of Agriculture			0.7	11,044.0	(4,515.7)	6,528.3	6,528.3	
Dept. of Ag-Nat'l Forest (pass through to locals)			2,289.9	3,300.0	(1,010.1)	2,289.9	2,289.9	
Dept. of Commerce			0.0	71.4	(29.3)	42.1	42.1	
Dept. of Energy			0.0	1.0	(1.0)	0.0	0.0	
Dept. of Homeland Security			0.0	5,905.6	(551.2)	5,354.4	5,354.4	
Dept. of Transportation-Trails			0.0	2,100.0		2,100.0	2,100.0	
Environmental Protection Agency			0.0	286.8	(286.8)	0.0	0.0	
<u>Dept. of Interior</u>								
Fish and Wildlife Service - Fish Restoration			2,467.3	9,137.8	(17.8)	9,120.0	9,120.0	
Fish and Wildlife Service - Wildlife Restoration			2,172.7	12,542.5	(333.8)	12,208.7	12,208.7	
National Park Service			0.0	2,738.6	(1,852.6)	886.0	886.0	
Oil & Gas Royalty (pass through to locals)			432.0	150.0		150.0	150.0	
Pittman Robertson-Acquired Lands			375.0	500.0		500.0	500.0	
Shooting Ranges			81.5	189.2		189.2	189.2	
US Geological Survey			0.0	2.0	(2.0)	0.0	0.0	
<u>Restricted Funds</u>								
IDG (Interdepartmental Grants) - Engineering	0.0	1,400.0	408.2	1,972.1	(575.2)	1,396.9	1,502.4	(105.5)
IDG-Land Acquisitions	0.0	100.0	40.2	417.0	(317.0)	100.0	100.0	
IDG-MacMullan Conference Center	106.0	1,100.0	349.0	1,419.2	(204.6)	1,214.6	1,102.3	112.3
Private (donations, gifts, etc)	842.0	2,100.0	380.7	3,166.5	(1,121.7)	2,044.8	2,044.8	
Air Photo-Geographic Information Systems	25.4	1.5	4.4	26.3		26.3	26.3	
Cervid License Fees	0.0	200.0	54.9	165.0		165.0	195.7	(30.7)
Commercial Forest	106.6	28.0	16.8	48.5		48.5	48.5	
Forest Development	4,577.9	27,500.0	15,751.0	27,316.8		27,316.8	27,171.8	145.0
Forest Land Use	480.8	400.0	353.9	563.4		563.4	563.4	
Forest Recreation	7.2	1,300.0	96.9	1,459.0	(150.0)	1,309.0	1,309.0	
Game & Fish Protection Fund-General Purpose	10,134.4	60,000.0	14,869.7	66,797.6		66,797.6	65,670.3	1,127.3
Game & Fish - Deer Range	2,356.9	2,300.0	1,266.6	3,039.9		3,039.9	2,843.7	196.2
Game & Fish - Fisheries Settlement	1,610.6	500.0	12.4	905.5	(105.5)	800.0	800.0	
Game & Fish - Turkey	1,666.6	1,600.0	664.3	1,837.7		1,837.7	1,688.6	149.1
Game & Fish - Waterfowl	104.8	300.0	102.4	108.9		108.9	108.9	
Game & Fish - Wildlife Res. Prot.	552.6	1,100.0	377.3	1,653.6		1,653.6	1,253.6	400.0
Game & Fish - Youth Hunt & Educ.	87.5	40.0	10.4	28.4		28.4	28.4	

	A	B	C	D	E	F(D+E)	G	H(F-G)
	Beg. Avail. Fund Bal. as of 10/1/2007	Projected Annual Revenues	Year to Date Revenues through Mar.	Appropriation PA 122 of 2007	Adjustments	Available to Spend	Current Spend Plan	Estimated Remaining
Harbor Development	0.0	3,600.0	1,636.1	299.4		299.4	299.4	
Land Exchange Facilitation Fund	389.2	4,000.0	3,626.4	6,166.4	(1,848.1)	4,318.3	3,928.6	389.7
Marine Safety	669.5	5,300.0	2,262.4	4,771.7	(480.0)	4,291.7	4,291.7	
MI Civilian Cons Corps Endowment	346.5	800.0	12.5	525.0		525.0	500.0	25.0
MI Natural Resources Trust Fund	32,027.6	60,100.0	31,588.5	3,065.2		3,065.2	2,851.2	214.0
Nongame Endowment	374.1	600.0	138.1	704.8		704.8	688.7	16.1
Off-Road Vehicle Safety Fund	294.4	200.0	24.4	217.3		217.3	217.3	
Off-Road Vehicle Trail	3,652.1	3,300.0	605.6	4,701.6		4,701.6	4,701.6	
Park Endowment	9,832.6	17,000.0	10,585.6	13,816.6		13,816.6	13,743.5	73.1
Park Improvement	4,481.9	39,000.0	14,907.9	41,367.5		41,367.5	38,868.2	2,499.3
Recreation Improvement Fund	476.8	1,000.0	447.8	1,476.5		1,476.5	1,476.5	
Snowmobile Registration	679.5	1,400.0	895.8	2,273.4		2,273.4	2,273.4	
Snowmobile Trail Improvement	4,314.3	7,300.0	5,045.5	10,030.1		10,030.1	9,538.5	491.6
Waterways	3,251.6	20,800.0	7,695.9	16,504.1		16,504.1	16,504.1	
Revenues not projected*								
Aircraft	1,136.4		30.9	257.3		257.3	257.3	
Clean Michigan Initiative	1,649.7		23.7	57.6		57.6	57.6	
Sign Shop Fees	18.8		0.0	65.9	(30.0)	35.9	35.9	
Publications	107.3		0.1	0.5		0.5	0.5	
Sportsmen Against Hunger	47.8		7.9	257.0	(207.0)	50.0	50.0	
General Fund	N/A		N/A	22,743.2		22,743.2	22,759.8	(16.6)
Total				288,195.4	(13,639.4)	274,556.0	268,870.1	5,685.9

*In some instances, revenues are not projected due to the limited amount of annual revenue that is generated, such as the Sign Shop Fees, or the General Fund, due to its statewide nature.

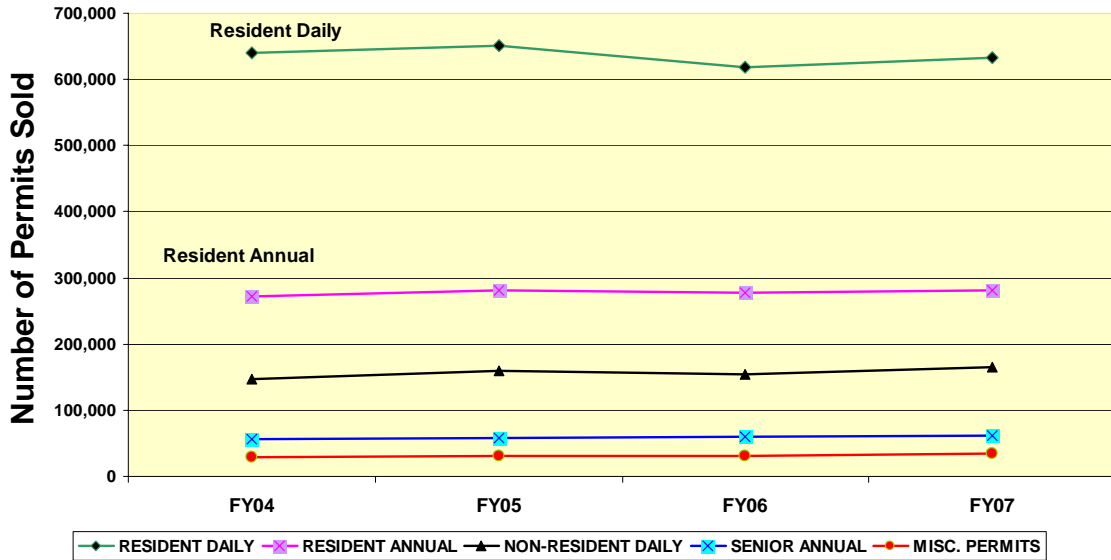
State Park Camp Night Trends



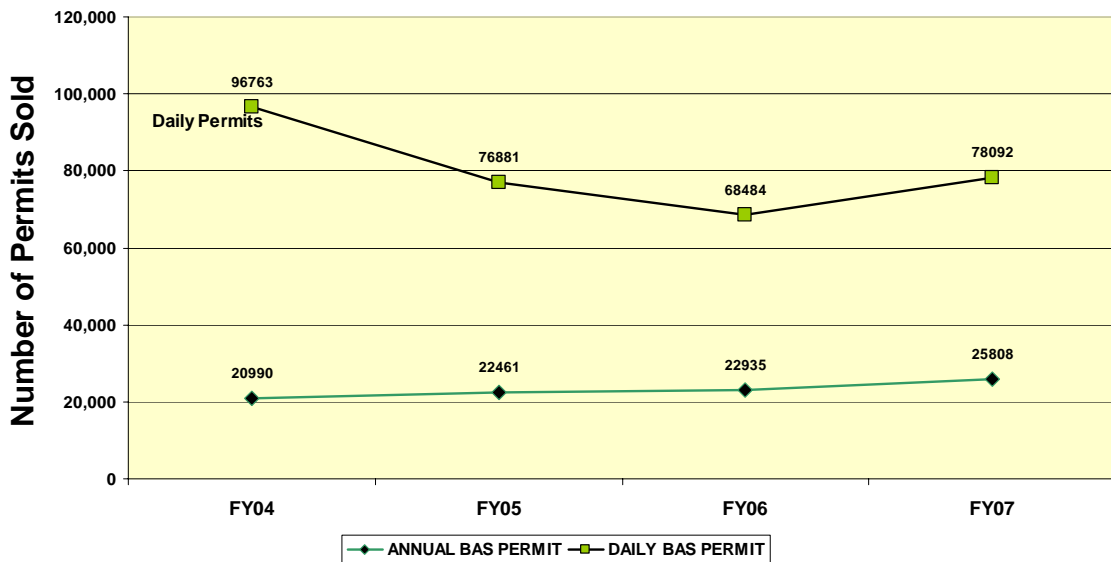
NOTE: The National Park Service has recorded a 25% decline in attendance at National Parks since 1985.

NOTE: Between 1999 and 2002, 1,000 campsites were removed from the system reducing the total number of sites to 13,844.

Motor Vehicle Permit Sales Trends



Boating Access Site Permit Sales Trends



**Parks and Recreation Division
Financial Analysis
as of May 5, 2008**

Park Improvement Revenue			
<u>Revenue</u>			
Totals thru March	2008	-0.04%	▼
		% of Projected	
P/I YTD Revenue vs.			
P/I Proj. Year-end Rev.			
2008	37.94%		

Note: Revenue % of change - Includes MVP sales being up & \$2 fee increase on half the Parks campgrounds.

<u>Camp Night Analysis</u>			
Item	Fy		% change
<u>Camp nights</u>			
Totals thru April 26 th	2007		
Park camp nights	2008	-3.60%	▼
Totals thru March	2007		
Park camp nights	2008	-4.00%	▼

<u>Motor Vehicle Permits Sales Analysis</u>			
Item	Fy	Volume	% change
Totals thru March	2007	71,274	
	2008	89,120	25.04% ▲
Totals thru Feb.	2007	61,342	
	2008	78,745	28.37% ▲
Month of March only	2007	9,932	
	2008	10,375	4.46% ▲
		% of Proj.	
MVP's YTD vs.		89,120	
MVP Proj. Year-end	2008	1,164,969	7.65%

Note: One main reason Sales are up is because FY07 permits were not available for sale until January 2007.

DEPARTMENT OF NATURAL RESOURCES
RESTRICTED REVENUE FUND BALANCE PROJECTIONS AND TARGETS

	Fiscal Year 2006-07		Fiscal Year 2007-08	
	Beginning Balance	Ending Balance	Est. Ending Balance	Historical Target Fund Balances
<u>Forestry Funds</u>				
Forest Development	\$6,732,300	\$4,577,900	\$4,100,000	\$5,000,000
Forest Recreation	\$2,300	\$7,200	\$0	
Forest Land User Fund	\$583,800	\$480,800	\$300,000	
Commercial Forest	\$135,700	\$113,500	\$100,000	
<u>Game and Fish Funds</u>				
Game and Fish Protection Trust Fund	\$6,000,000	\$6,000,000	\$6,000,000	
Game and Fish-General Purpose (1)	\$8,491,000	\$10,134,400	\$4,000,000	\$10,000,000
Deer Range Improvement Program	\$2,018,700	\$2,356,900	\$1,800,000	\$500,000
Turkey	\$1,215,300	\$1,666,600	\$1,500,000	\$500,000
Waterfowl License and Fees	\$1,900,100	\$104,800	\$300,000	
Fisheries Settlements	\$1,530,700	\$1,610,600	\$1,300,000	
Wildlife Resource Protection	\$233,200	\$552,600	\$400,000	
Youth Hunting & Fishing Ed. & Outreach	\$48,600	\$87,500	\$100,000	
<u>Parks Funds</u>				
State Parks Endowment Fund	\$10,302,400	\$9,832,700	\$7,800,000	
State Park Improvement Fund	\$3,661,200	\$4,481,900	\$2,000,000	\$6,500,000
MI Civilian Conservation Corps Endow.	\$474,700	\$346,500	\$600,000	
<u>Snowmobile and ORV Funds</u>				
Off-Road Vehicle Trail Improvement Fund	\$3,997,400	\$3,652,100	\$2,200,000	
Snowmobile Trail Improvement Fund	\$1,783,900	\$4,314,300	\$2,000,000	
Snowmobile Registration Fees	\$1,107,800	\$679,500	\$0	
Safety Education Fund	\$303,100	\$294,400	\$300,000	
<u>Waterways Funds</u>				
Waterways	\$2,934,500	\$3,251,600	\$500,000	\$5,000,000
Harbor Development Fund	\$0	\$0	\$0	
Marine Safety Fund	\$622,300	\$669,500	\$300,000	
<u>Miscellaneous Funds</u>				
Michigan Natural Resources Trust Fund	\$34,805,000	\$32,027,600	\$38,000,000	
Land Exchange Facilitation Fund	\$8,800	\$389,200	\$200,000	
Nongame Fish and Wildlife Trust Fund	\$319,100	\$374,100	\$300,000	
Recreation Improvement Fund	\$582,800	\$476,800	\$0	
MacMullan Conference Center	\$86,200	\$106,000	\$100,000	

(1) Fiscal Year 2007-08 Department expenditures are estimated to be approximately 95% of the appropriated level.

DEPARTMENT OF NATURAL RESOURCES
Investment Asset Allocation and Earnings Distribution Plans
as of May 1, 2008

Current Plans Summary

Asset Allocation

<u>Fund Name</u>	<u>Earnings Distribution Plan</u>	<u>Current Equity/Fixed</u>	<u>Target Equity/Fixed</u>	<u>Comments</u>
N R Trust Fund	5% of corpus, plus 5% of stabilization reserve.	25/75	75/25	Move to 75/25 as reserve increases beyond 20% of equities. Grant lapses added to stabilization reserve, per Board action.
Park Endowment	5% of equity target, plus actual interest income on fixed portfolio.	25/75	75/25	Move to 75/25 as reserve increases beyond 20% of equities.
Game and Fish Trust	5% of equity target, plus actual interest income on fixed portfolio.	50/50	75/25	\$6 million appropriation provides a steady revenue stream and permits a more aggressive allocation; low program fund balance increases need for stable income. No near-term increase in equities until structural program fund budget budget issue resolved.
Nongame Trust	5% of equity target, plus actual interest income on fixed portfolio.	10/90	50/50	Need income to match federal grants. Increase equity holdings when stabilization reserve exceeds 20% of equities.

Note: In the event that stabilization reserves are insufficient to allow a full distribution without going negative, distributions will be reduced as needed to avoid spending corpus. All funds would have an ultimate target of stabilization reserves equal to 20% of corpus.

DEPARTMENT OF NATURAL RESOURCES
Analysis of Stabilization Reserves as Compared to Equity Investments
Balances as of September 30, 2007
In Thousands

	A	B	C (A + B)	D	E (C * D)	F (B / E)	G (B - (E * 20%))
	Actual						
Fund	Corpus	Stabilization Reserve	Total Invested Funds	Current Equities Allocation	Current Equities (dollars)	Reserve as a Percentage of Equities	Reserve Amount Over 20% of Equities
Natural Resources Trust Fund	\$319,009.2	\$26,304.7	\$345,313.9	25%	\$86,328.5	30.5%	\$9,039.0
State Parks Endowment Fund	\$126,364.9	\$7,164.2	\$133,529.1	25%	\$33,382.3	21.5%	\$487.7
Game and Fish Protection Trust Fund	\$98,319.0	\$13,136.6	\$111,455.6	50%	\$55,727.8	23.6%	\$1,991.0
Nongame Fish and Wildlife Trust Fund	\$6,000.0	\$171.3	\$6,171.3	10%	\$617.1	27.8%	\$47.9
	<u>\$549,693.1</u>	<u>\$46,776.8</u>	<u>\$596,469.9</u>		<u>\$176,055.7</u>		

This table illustrates a methodology for calculating potential changes in asset allocation based upon September 30, 2007 ending balances and assuming a 20% of equities stabilization target level.

DEPARTMENT OF NATURAL RESOURCES

Summary of Investment Asset Allocation and Spending Plan Recommendations May 8, 2008

The following proposals for changes to the Department of Natural Resources' "Investment Asset Allocation and Spending Plans" are summarized and explained below:

1. Add to equity investment current targets in increments of 5%, once stabilization target level is reached.

Pros: a) Increasing equity holdings will result in larger revenues over time;
b) A gradual increase in equity exposure moderates risk of larger changes; and
c) Decreases the problem of potentially buying at market peaks.

Cons: a) Delaying more aggressive investments could delay benefit of more aggressive asset allocation; and
b) Reduces amount available for current spending by increasing reserve needs.

2. Establish a target investment stabilization reserve of 30% of equity holdings.

Pros: a) Protects investment principal from loss when market value declines occur;
b) Increases future revenues by providing a larger investment total;
c) Increases future revenues by allowing an aggressive asset allocation; and
d) Provides for stability of spending distributions, even during downturns.

Cons: a) A lower spending reserve would allow increased current spending; and
b) A larger reserve is perceived as expendable.

3. Increase distributions from reserves which exceed 20% of equity current target to 8%.

Pros: a) A reserve of 20% provides good protection from market down-turns;
b) The 8% level is consistent with the expected long-term return on equities;
c) Provides additional current program spending; and
d) Reduces perception that reserves are excessive.

Cons: a) Will slow accumulation of reserves available for more aggressive allocation.

4. Adopt the Natural Resources Trust Fund Board methodology of smoothing fixed, as well as equity, revenue distributions, using 5%.

Pros: a) Added stability and predictability of spending levels;
b) Simplifies accounting and understandability;
c) Provides consistency across investment types; and
d) Five percent (5%) is consistent with the fixed investment portfolio projected return rate.

Cons: a) In the event of market value losses or returns less than 5%, increases demand on stabilization reserves.

5. Reduce current target for equity holdings in the Game and Fish Protection Trust Fund to 25/75 and the long-term target to 50/50.

Pros: a) Given the current structural imbalance in the program fund, the potential for the need to transfer stabilization reserves exists and should be anticipated;
b) Reducing the current equity target will allow spend-down of reserves to maintain spending program and/or delay license fee increase; and
c) The current target of 50% equities for this fund appears to exceed acceptable "risk tolerance" levels for many at this time.

Cons: a) The structural imbalance of revenues and expenditures will be increased in the future due to reduced investment revenues;
b) This would be a temporary "one-time" fix and could delay addressing the structural imbalance problem; and
c) The annual \$6 million transfer provision for the Trust already redirects significant amounts available for investment.

6. Once the ultimate asset allocation target is reached, revenue distributions will be based upon the long-term projected return rate of the portfolio asset allocation mix, with gains or losses in excess of that amount amortized.

Pros: a) When the permanent target asset allocation and stabilization reserve is reached, it should be feasible to provide a steady distribution rate at up to the long-term projected return rate.

Cons: a) Consideration should be given to potential desirability of providing for growth, or maintaining corpus at inflation adjusted level. (This is required for the State Park Endowment Fund once its principal cap is reached.)