

MICHIGAN NATURAL RESOURCES TRUST FUND

BOARD OF TRUSTEES MEETING

Minutes of February 4, 2004
Best Western Midway Hotel, 7711 W. Saginaw, Lansing

The meeting of the Michigan Natural Resources Trust Fund (MNRTF) Board of Trustees commenced at approximately 9:05 A.M.

The following Board members were present:

Steven Arwood
David Dempsey
Bob Garner
Sam Washington

Also in attendance were various staff members of the Department of Natural Resources (DNR) and other interested parties.

Due to a prior commitment, Chairperson Jim Thompson was not in attendance. Mr. Arwood, as Vice-Chairperson, presided over the meeting.

I. ADOPTION OF MINUTES.

Vice-Chairperson Arwood called for the adoption of the December 10, 2003 Board meeting minutes.

MOVED BY MR. GARNER, SUPPORTED BY MR. WASHINGTON, TO APPROVE THE MINUTES OF THE DECEMBER 10, 2003 MNRTF BOARD MEETING. PASSED.

MOVED BY MR. GARNER, SUPPORTED BY MR. DEMPSEY, TO APPROVE THE 2004 MNRTF BOARD MEETING DATES AND LOCATIONS. PASSED.

II. PUBLIC APPEARANCES.

Representative Dale Sheltroun – 03-205, Holiday Inn Property Acquisition, City of East Tawas.

Representative Dale Sheltroun made a presentation in support of 03-205, Holiday Inn Property Acquisition, City of East Tawas. This project was one of the two applications submitted by the City in the 2003 funding cycle. The Board approved a grant for the City's Rice Waterfront Acquisition project (03-047) in the amount of \$96,464 at their December 10, 2003 meeting. The Holiday Inn Property Acquisition was the City's top priority project, and, on behalf of the City, he is requesting the Board switch funding to that project.

Representative Sheltroun also stated that if any money is returned to the Trust Fund from other projects, he asked that this be applied towards the Holiday Inn acquisition, as it is a more costly project than the Rice Waterfront acquisition.

Mr. Garner stated that he has no problem with making the project change, but wants to make sure it is done properly. Mr. Washington asked if the Board making a decision for change of the project is time-sensitive. Representative Sheltroun responded that it is his understanding that staff is now preparing the draft Trust Fund bill to go before the Legislature at this time, and this project change would have to be made in the bill.

Vice-Chairperson Arwood asked what the grant request was for the Holiday Inn acquisition. Ms. Deborah Apostol, Manager, Grants Section, Grants, Contracts and Customer Systems, DNR, responded that the grant amount requested was \$263,173.

Mr. Washington does not have a problem switching the projects, however, the Board should not increase the Holiday Inn acquisition amount based on what might be lapsed back to the Trust Fund. He asked Mr. Wood if any communities have withdrawn their projects. Mr. James Wood, Chief, Grants, Contracts and Customer Systems, DNR, responded that staff has had verbal conversations with one community, but have not received anything in writing for withdrawal.

Mr. Washington stated that if the City of East Tawas received lapsed funds to make up the difference in cost of this project, this could be perceived as preferential treatment and would not be fair to other communities who have applied for grants.

MOVED BY MR. GARNER, SUPPORTED BY MR. WASHINGTON, TO APPROVE 03-205, HOLIDAY INN PROPERTY ACQUISITION, CITY OF EAST TAWAS, IN PLACE OF 03-047, RICE WATERFRONT ACQUISITION PROJECT, AS WAS APPROVED AT THE BOARD'S DECEMBER 10, 2003 MEETING. THE AMOUNT, \$96,464, WILL REMAIN THE SAME. PASSED.

III. OLD BUSINESS.

Ms. Kelli Sobel, Administrative Services Deputy.

Ms. Kelli Sobel, Administrative Services Deputy, DNR, outlined discussions that took place at the MNRTF Finance Subcommittee meeting held January 30, 2004. Vice-Chairperson Arwood and Mr. Dempsey were asked to head up this committee to investigate expenditures being charged to the MNRTF.

Ms. Sobel identified the FY 2003-2004 balances of the Trust Fund via a chart. The available balance was \$28.3 million. There was approximately \$16.7 million received in oil and gas leases and royalties (1/3rd which can be spent), \$10 million for investment corpus reserves (5% which is set aside), \$354,711 for administrative lapses (can be put in Stabilization Fund or allocated to projects) and \$1 million for miscellaneous revenues (common cash earnings). There is \$230 million in the corpus.

Ms. Sobel further identified the expenditures for the Trust Fund. These include:

- Capital Outlay and Grants - \$23,800 (money that is allocated to projects).
- Grants Administration - \$466,000 (Grants, Contracts and Customer Systems staff who work on Trust Fund). One person is paid 100% and other staff proportionately with Trust Fund.

- Payment in Lieu of Taxes (PILT) - \$1.2 million (used to pay taxes on properties acquired with Trust Fund monies). A solution to the PILT issues will be announced on February 12. This will include PILT currently being paid by the Trust Fund, as well as other funding sources.
- Department of Information and Technology (DIT) - \$466,900. All State Departments provide DIT funding for the network, computer support, etc. We will continue to look for ways to reduce the cost of DIT charges to the Trust Fund.

Mr. Washington asked if DIT operates as a business for a profit. Ms. Sobel responded no. Mr. Washington asked who allocates the amount charged to the Trust Fund. Ms. Sobel responded that DNR receives an allocation from DIT that charges for per computer, network and overhead for DIT staff (based on salaries who work for DIT). DNR then bases this on the cost allocation plan which is prepared by an outside third party.

- Land Ownership Tracking System (LOTS) Development - \$540,000. The Trust Fund has provided a total of \$2.7 million (28%) of the cost. The majority of the cost was provided by the Lands Sale Fund (47%) and the Game and Fish Fund (10%). Other funds provided the balance of the costs.

Ms. Sobel stated that the Trust Fund receives revenue verification from LOTS. The Trust Fund has received \$3.5 million from this verification. Staff will be meeting soon to discuss what the ongoing cost will be for LOTS and who will provide this cost.

- Forest, Mineral and Fire Management - \$956,400 (for Minerals Management staff who manage Trust Fund oil and gas revenues. Staff is paid proportionately with other funding sources as well).
- Oil and Gas Audits - \$150,000 (derived from \$3.00 fee). DNR has recovered \$3.5 million in audits and spent \$1.4 million.
- Cost Allocation Charges (Administration and Rent) - \$360,800. It is a requirement by the Federal government and statutorily to do a cost allocation to determine charges for general administration for the DNR. Since the mid-90's, a private company has been doing the cost allocations for the Department. The Trust Fund supports a portion of staff operations in Executive (Director's staff), Budget and Support Services (budget), Office of Financial Services (accounting), Program Assistance and Review (auditing), GCACS (grant administration), Office of Land and Facilities (real estate transactions), Human Resources, DIT, Department Operation Support (rent), Forest, Mineral and Fire Management Division (Mineral Management staff) and PILT.
- Other Departments - \$41,900. Of this amount, the Department of Civil Service is entitled to a Constitutional one percent of every fund (received \$17,000), and the Department of Treasury received \$24,900 for management of the Trust Fund.

Ms. Sobel further stated that staff will provide the Board with an update of expenditures at their December Board meeting. The books close in December, and staff will be able to provide the most accurate information of balances and expenditures at that time.

In addition, Ms. Sobel asked if the Board would like to appoint a representative to serve on the Natural Resources Commission's Policy Committee on Finance and Administration. The next Policy Committee meeting will be February 23, 2004, where discussions will include investments, fund balances and PILT.

Vice-Chairperson Arwood stated that the revenue and interest report (pink sheet) needs to be replaced. It was suggested by Mr. Dempsey and Vice-Chairperson Arwood to provide the Board with a financial statement that is more streamlined (not include governmental accounting).

Mr. Washington asked if the MNRTF has a budget. Ms. Sobel responded that the appropriations for the MNRTF are part of the DNR's budget. Mr. Washington referenced the "administrative lapses" and asked that because of cost-cutting measures taken by the Executive office, the MNRTF saved \$354,711. He wondered what the baseline was on this to determine what the savings were if there wasn't a budget. Ms. Sobel responded that there was a budget. Administrative lapses are savings from the various appropriated functions paid by the MNRTF (e.g. Forest, Mineral and Fire Management lapsed \$247,591 back to the MNRTF). Mr. Washington stated that these lapses need to be identified individually. Vice-Chairperson Arwood suggested that a line be added to identify administrative lapses, and where funds were lapsed, on the revenue and interest report.

Mr. Dempsey wanted to know when the decision is made, and by whom, to add lapses to the corpus, projects or other uses. Ms. Sobel responded that the MNRTF Board makes that decision at their December meeting.

Discussion ensued on expenditures, savings and how amount of funding for staff is determined.

Ms. Sobel stated that reduction in General Funds is putting pressure on restricted funds. The DNR went from \$56 million in General Fund to \$28 million this year.

Mr. Dempsey would like the Board to be provided with periodic updates on the status of PILT, DIT and LOTS development.

Vice-Chairperson Arwood asked that the Board be provided with a draft of the updated revenue and interest report to review. Mr. Wood will provide this to the Board.

MOVED BY MR. GARNER, SUPPORTED BY MR. DEMPSEY, TO APPOINT VICE-CHAIRPERSON ARWOOD AS THE MNRTF BOARD REPRESENTATIVE ON THE NATURAL RESOURCES COMMISSION'S POLICY COMMITTEE ON FINANCE AND ADMINISTRATION. PASSED.

Mr. Garner asked Ms. Sobel to notify all MNRTF Board members of dates of the NRC Policy Committee on Finance and Administration. Ms. Sobel responded she would provide notification. Vice-Chairperson Arwood also asked that when the budget comes out and the DNR does their analysis, the Board be provided with a copy of this. Ms. Sobel responded that a copy will be provided to all Board members. Ms. Sobel also advised the Board that she will call all members on February 12th to advise them of the PILT solution.

Mr. Lowen Schuett, Acting Chief, Parks and Recreation Bureau – Park Trails Leasing.

As a preview to Mr. Lowen Schuett's presentation, Ms. Sobel advised the Board that in the 2004 budget, Parks and Recreation Bureau lost all General Funds (\$9 million). In Proposal 2, Parks and Recreation Bureau were allowed to spend more of their endowment (an additional \$6 million per year). It was the DNR's intent to spend this funding on capital improvement for parks. This \$6 million is now going to support parks operation.

Ms. Sobel further stated that in the past year Parks and Recreation Bureau has put together information on the parks that are making or losing money. One of the big money losers has been operating trails. Staff has developed ways to still provide access to and operation of the trails. Mr. Schuett will outline the concept of leasing park trails property. This will involve the MNRTF and will need the Board's approval.

Mr. Washington asked what prevents the closing of State parks. Ms. Sobel responded that this is the direction from the Legislature.

Mr. Schuett stated that the \$6 million from the Park Endowment Fund came into the operating fund, but with the loss of \$9 million, additional funds still need to be generated. The Legislature increased the motor vehicle permit to do this in 2004. State Parks are almost totally reliant on user fees. The DNR is trying to keep the cost of user fees down and to keep it as economical as possible for visitors and to keep in relation to neighboring states' fees.

Mr. Schuett further stated that the DNR has been looking at some expensive State Park facilities, where we have not been taking in the kind of revenue that we have to expend. He referenced, as an example, the historic farm at Maybury State Park, which has an interpretive center. Operation and maintenance costs are very high (\$300,000). As a result, the DNR developed a partnership with a not-for-profit corporation to take over the operation and development of the farm. This is the same type of concept the DNR is looking at for five linear trails that are managed by the Parks and Recreation Bureau. These five trails are: Lakeland Trail, Kal Haven Trail, Van Buren Trail, White Pine Trail and the Hart-Montague Trail. These are all located in the southwest portion of the State.

Mr. Schuett stated that staff contacted local units of government (and counties) in these areas, as well as "Friends of" the particular trails, outlining the possible shifting of trail operation. An operating partnership would be developed. The local units of government have been very receptive to this partnership. The DNR is proposing that a lease be established with the local unit of government for trail maintenance and operation.

Vice-Chairperson Arwood asked if a trail conservancy or an organized trail group qualify for a trail lease agreement. Mr. Schuett responded that at the time the DNR is dealing with local units of government, but a trail conservancy or group could be a possibility. It would need to be an established, public corporation.

Mr. Washington asked if the lessee would determine what fees are charged. Mr. Schuett responded that we would want to enable the lessee to charge a fee, but subject to the review of the lessor (DNR). Mr. Washington's concerns are: 1) that this is a lease only and that the property not be sold; and 2) restrictions be put on the lessee that the DNR have control over the activities of the trail.

Vice-Chairperson Arwood wondered why the DNR doesn't just deed the trails to the local unit with a reverter clause. Ms. Sobel stated that this has been discussed. Mr. Schuett added that with a lease the local unit must do the operation and maintenance. Vice-Chairperson Arwood would like the MNRTF to get out of the fixed costs of the property (PILT).

Ms. Sobel stated that a lease would have to be for at least 10 years and the MNRTF Board would have to give their approval. Mr. Washington asked if there would be provisions placed in the lease, such as a certain amount of improvements had to be made or dollars expended over a period of time. Mr. Schuett responded no. At this point, it is to the DNR's advantage to get out from underneath the operation and maintenance of trails. The local communities involved would be interested in the lease as it would be fitting into a trail development plan that they have.

Mr. Garner stated that the Governor favors partnerships with local units of government. He feels this would fit into what the Governor is proposing. Vice-Chairperson Arwood wondered what the next step in the leasing process would be. Mr. Wood responded that staff will be providing the Board with details regarding the Trust Fund sites that would be encumbered by the leases. Board policy allows for operation of leases, but anything over 10 years requires Board review and approval. Mr. Garner asked if it is anticipated the lease will be longer than 10 years. Mr. Schuett responded yes.

Vice-Chairperson Arwood asked staff to provide the Board with a list of State Parks that are losing money for their information. Ms. Sobel will provide this list to the Board.

IV. NEW BUSINESS.

TF01-068, Clinton River Trail Acquisition, City of Rochester Hills – **CONVERSION AND PROJECT CHANGE REQUEST.**

Mr. Wood outlined TF01-068, Clinton River Trail Acquisition, City of Rochester Hills, where the City is requesting a conversion request. This request would be to reroute a section of the Clinton River Trail. The City was awarded a \$1.9 million acquisition grant in 2001 to acquire 4.55 miles of abandoned railroad corridor to be used as a nonmotorized recreation trail. The acquisition has been completed and the trail is open for public use. The City has not yet developed the trail with a hard surface.

The property that the trail bisects is going to be developed. Because of this the City is requesting a conversion where a portion of the trail would be rerouted to a different portion of the site. In addition, for a certain period of time the actual trail will be closed. During this time, an alternate route will be provided so the access route will not be compromised. When this is done, there will be a spur that will connect the trail to another local trail.

Mr. Wood stated that at this point there are no alternative sites that have been identified. The City would like to obtain the Board's approval for the concept of the process so that they may begin incurring expenses. He pointed out in the memorandum to the Board, there are several contingencies that have been identified by staff, with the most important factors being that the public does not lose the ability to continue to use the trail, and any replacement property would be equal to usefulness, size and fair market value.

Mr. Washington asked if the City planned on selling the easement currently held to the developer and use the proceeds to buy property to complete the new trail. Mr. Wood responded yes. A portion of the trail would be sold to the developer and then a replacement parcel would be purchased.

At this point, Mr. Mike Hartner, Parks and Forestry Director, City of Rochester Hills, responded to other questions and concerns expressed by Mr. Washington. Mr. Washington wondered if the City was more interested in a commercial walk-through trail or a nature walk. Mr. Hartner responded that there are a number of locations on the trail that are a natural setting, but others are close to more active areas. There is diversity when traversing the trail. The City wanted to create this type of diversity.

Mr. Washington expressed the fact the value of the original corridor is substantially greater than the value of the alternate corridor in terms of real estate development. Mr. Hartner responded that in the proposal the City will get all of the development portion of the trail done. Mr. Washington further stated that he does not want to see the City sell the original parcel at a value three times greater than what the City originally received in their grant.

MOVED BY MR. GARNER, SUPPORTED BY MR. DEMPSEY TO APPROVE THE CONVERSION AND PROJECT CHANGE REQUEST FOR TF01-068, CLINTON RIVER TRAIL ACQUISITION, CITY OF ROCHESTER HILLS. PASSED.

Mr. Washington requested that Mr. Wood verify with the City that no one who is a principal is involved financially in the shopping center or has money invested in it. He would want that provision to be included in the conversion. Mr. Wood will follow through with this request.

MOVED BY MR. WASHINGTON, SUPPORTED BY MR. DEMPSEY, THAT STAFF VERIFY THAT NO ONE CONNECTED DIRECTLY WITH THE CONVERSION AND PROJECT CHANGE REQUEST FOR TF01-068, CLINTON RIVER TRAIL ACQUISITION, CITY OF ROCHESTER HILLS, HAS A FINANCIAL INTEREST IN THE DEVELOPMENT OF THE COMMERCIAL CENTER. PASSED.

TF01-210, White Pine, Van Buren and Lakeland Trails, Parks and Recreation Bureau, DNR.

Mr. Wood outlined the project change request for TF01-210, White Pine, Van Buren and Lakelands Trails, Parks and Recreation Bureau, DNR. This project was to provide paving for segments of linear trails in White Pine, Van Buren and Lakelands Trail State Parks. Due to unforeseen circumstances, development of the White Pine Trail exceeded the total funding allotted for two of the three parks.

Parks and Recreation Bureau is proposing to use the balance of the grant (\$200,000) to provide a bridge over the Paw Paw River north of Hartford in Van Buren Trail State Park, and repairs to a historic culvert that crosses the Stegman Creek in White Pine Trail State Park. No development will take place at Lakelands Trail State Park.

MOVED BY MR. GARNER, SUPPORTED BY MR. DEMPSEY TO APPROVE THE PROJECT CHANGE FOR TF01-210, WHITE PINE, VAN BUREN AND LAKELANDS TRAIL STATE PARKS, TO ALLOW A SCOPE CHANGE ADDING THE CONSTRUCTION OF THE STEGMAN CREEK CULVERT, REPAVING AND REGRADING, DEVELOPMENT OF THE PAW PAW BRIDGE AND ELIMINATING THE TRAIL DEVELOPMENT AT LAKELANDS AND VAN BUREN TRAIL STATE PARKS. PASSED.

Vice-Chairperson Arwood asked Mr. George Burgoyne, Resource Management Deputy, DNR, to brief the Board on the status of boundary reviews. Mr. Burgoyne advised the Board that there has been a review of project boundaries and internally the first stage has been completed. It has been on the Internet for public review and comment. Public comments will be summarized and reviewed by staff and project boundaries will be looked at again before going to the Director for his review. After that, there will be another review wherein all divisions will look at the properties that are outside the project boundaries to determine if they provide recreation or conservation benefits to see if State ownership should be retained. The review process is expected to take at least two years. The Board will be advised of properties acquired with MNRTF monies, as well as periodic updates on the review process, public comment, etc.

2004 Nominations Report.

Mr. Wood advised the Board five nominations were received by the January 1 deadline. Information on the nominations has been forwarded to the land managing divisions for their review and possible submission of an application by the April 1st deadline.

2004 Recreation Grant Application Package.

Mr. Wood advised the Board that they had received a copy of the 2004 recreation grant application package in their Board materials. This includes information on both the MNRTF and Land and Water Conservation Fund grant programs. The grant application and supporting documents are also available on the DNR's website.

Vice-Chairperson Arwood would like the Board to have the opportunity to look at application processes and procedures before grant application materials are finalized for the 2005 cycle. Mr. Wood stated that staff would need the Board's final decisions on what the 2005 program will be by the October 13, 2004 meeting.

Mr. Dempsey asked if there was going to be a review of the scoring criteria by the August 18, 2004 Board meeting. Mr. Wood responded that this would be on the August Board meeting agenda for a decision at the October meeting.

V. STATUS REPORTS.

Real Estate Report.

Mr. Wood advised the Board that there was not a real estate report for this meeting. There has not been a lot of real estate activity involving Trust Fund dollars.

The Board will be provided with copies of the 2003 MNRTF Annual Report and real estate acquisitions at their April meeting.

Project Completion Report.

There was one acquisition and three development projects completed during the period October 1, 2003 through January 31, 2004.

Revenue and Interest Report.

No report provided for this meeting.

Lump Sum Report.

No report provided for this meeting.

VI. OTHER MATTERS AS ARE PROPERLY BROUGHT BEFORE THE BOARD.

Mr. Garner asked when the Land and Water Conservation Fund projects decision would be made. Mr. Wood responded that decisions have been made and announced in early January. Mr. Garner asked that the Board be provided with a list of the recommended projects. Mr. Wood will provide this.

Mr. Washington asked about signage for MNRTF projects. He has observed some MNRTF-funded projects where a plaque has not been displayed. Mr. Wood responded that signage is required and this is indicated in the project agreement issued to the MNRTF grantee. The plaque is of our design and grantees must order from Castco Company in Petoskey. The plaque must be displayed on the park entrance sign indicating that the site has received MNRTF monies. If there is no park entrance sign, there must be some type of sign erected identifying the site as available for public use.

Mr. Wood would like to be made aware of sites where it has been noticed that a MNRTF plaque has not been posted.

VII. ANNOUNCEMENTS.

NEW MEETING LOCATION: The next meeting of the Michigan Natural Resources Trust Fund Board is scheduled for 9:00 A.M., Wednesday, April 21, 2004, at the **Forum, Michigan Library and Historical Center, 702 W. Kalamazoo Street, Lansing, Michigan**

VIII. ADJOURNMENT.

MOVED BY MR. GARNER, SUPPORTED BY MR. WASHINGTON, TO ADJOURN THE MEETING. PASSED.

The meeting was adjourned at 10:58 A.M.

Steven D. Arwood, Vice-Chairperson
Michigan Natural Resources Trust Fund
Board of Trustees

James Wood, Chief
Grants, Contracts and Customer Systems
Administrative Services Bureau

DATE