

MICHIGAN NATURAL RESOURCES TRUST FUND

BOARD OF TRUSTEES MEETING

Minutes of April 13, 2016

Lansing Center – Governor’s Room, 333 E. Michigan Avenue, Lansing
9:00 AM

The meeting of the Michigan Natural Resources Trust Fund (MNRTF) Board of Trustees commenced at 9:01 AM, Wednesday, April 13, 2016.

The following Board members were present:

Brad Canale
Sam Cummings
Steve Hamp
Erin McDonough
Dr. William Moritz (Director)

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

I. ADOPTION OF MINUTES FOR MEETING OF FEBRUARY 10, 2016.

Chairperson Canale called for the adoption of the minutes of the February 10, 2016 MNRTF Board meeting.

**MOVED BY MR. CUMMINGS, SUPPORTED BY DIRECTOR MORITZ, TO ADOPT THE MINUTES OF THE FEBRUARY 10, 2016 MNRTF BOARD MEETING.
MOTION PASSED WITHOUT DISSENTING VOTE.**

II. ADOPTION OF AGENDA FOR MEETING OF April 13, 2016.

Chairperson Canale called for the adoption of the agenda for the April 13, 2016 MNRTF Board meeting.

**MOVED BY MR. CUMMINGS, SUPPORTED BY MS. McDONOUGH, TO ADOPT THE AGENDA FOR THE APRIL 13, 2016 MNRTF BOARD MEETING.
MOTION PASSED WITHOUT DISSENTING VOTE.**

III. INTRODUCTIONS.

The Board members introduced themselves.

Mr. Jon Mayes, Acting Manager, Grants Management Section, Finance and Operations Division, DNR, introduced himself and Grants Management staff: Ms. Tamara Jorkasky (Acting Unit Manager, MNRTF), Ms. Rachel Schumaker (Administrative Assistant to staff and Board),

Mr. Mike Chuff (MNRTF Financial Specialist), Ms. Amy Matisoff (Grant Coordinator), Mr. Chip Kosloski (Grant Coordinator), Ms. Merrie Carlock (Grant Coordinator) and Ms. Christie Bayus (Program Manager, LWCF/Marine Safety/Recreation Passport Programs).

Mr. Mayes also introduced Ms. Sharon Schafer, Chief of Finance and Operations Division, and Mr. Scott Goeman, Manager of Real Estate Services Section.

IV. PUBLIC APPEARANCES.

Mr. Tom Bailey, Executive Director, Little Traverse Conservancy

Mr. Tom Bailey commended the board for all of their efforts. He highlighted the need to work to ensure that the revenue stream from oil, gas and minerals is perpetually dedicated to conservation. This should be the highest long term priority. The timeless concept of this board is that the revenue from these non-renewable resources goes strictly to capital investments.

Mr. Mark Brochu, Director, St. Clair County Parks

Mr. Mark Brochu gave a brief update on their project status. In December of 2015 they closed on a 2.1-acre parcel in downtown Port Huron on the river front. They are still negotiating with Mr. Stilson regarding the property he has for sale. He also stated that they are hopeful in closing on two small properties possibly as early as August.

He commended the staff of the Grants Section for their timely efforts in sending St. Clair County their awarded contract just one day after the Governor signed the appropriation bill.

He stated that he is also looking forward to hosting the August Trust Fund meeting. They will be providing a tour the day before the meeting to showcase all of the beautiful properties that have been possible with the grants that they have been fortunate to be awarded with. The tour is being provided by St. Clair County with the help of Six Rivers Land Conservancy, SEMCOG, the City of Port Huron and the City of Marysville. The community foundation will be providing the board with hotel accommodations.

Mr. David Bulling, Township Supervisor, Odessa Township and Ms. Carolyn Mayhew, Chairperson of Jordan Lake Trail Board, Odessa Township

Ms. Carolyn Mayhew expressed concern over the way that the formula for calculating matching fund percentages is based for grant applicants. She feels that it does not properly reflect the matching funds that are available. She gave a handout with an example. She also explained that they have a project that has received commitment for a Michigan Department of Transportation (MDOT), Transportation Alternative Program, Grant that is contingent on receiving the matching funds from a MNRTF grant. With there being nearly 1 million in matching funds available from the MDOT grant there should not be a problem, but when entering the information in the Grant Application Evaluation Worksheet they are given a score of

“0” as if there were no matching funds available. She believes that the formula should be revised in order to give a fair and equitable solution to this problem by the 2017 application year.

Mr. David Bulling completely agreed with Carolyn’s request to have the formula revised for matching funds. He stated that it becomes crucial when it comes down to the last 10-20 points.

Ms. McDonough asked for clarification pertaining to the contingency of receiving the MDOT grant. Her understanding was that if the MNRTF grant is awarded then they would, in fact, receive the MDOT grant. Also, the MDOT grant could not be counted as match towards the MNRTF grant. Mr. Bulling confirmed that, yes, that is correct.

Mr. Sam Cummings asked for the application number for the Odessa Township project. Tamara Jorkasky gave him the application number, TF16-0041.

Mr. Chris Bunch, Executive Director, Six Rivers Land Conservancy and Ms. April Scholtz, Land Protection Director, Land Conservancy of West Michigan

Mr. Chris Bunch thanked the community for all of their work on the Innovative Finance Report. He stated that there is great merit in being proactively prepared to defend the Trust Fund, but that it should be established permanently by making a Constitutional change to support natural resources conservation forever.

He is concerned that Sections 5 & 6 of the report are being provided to guide prioritization and direction of the fund at the staff and board level, but that there is not enough stakeholder engagement talked about in the recommendations. He wants to be sure that the stakeholders from both the park systems and the conservancy community are involved in establishing these.

He also added that the Iron Belle Trail is a wonderful project, but little has been done for the hunting, fishing and recreation land in Southeast Michigan for some time. He would like to see the state committed to providing access and large tract recreation closer to the population center in the state.

Ms. April Scholtz commented on Section 6 of the report. She feels that no-one in the conservancy community is paying attention to how to spend these funding sources. She feels that many stakeholders do not know that this proposal is out there and she hopes for a little more transparency. We need to make people more aware of these proposals.

She added that projects are supposed to be directed as regional priorities by the Trust Fund. She asked how these priorities are established; are individual projects with the overall regional goals going to be scored the same as the other grants are being scored? Also, it gives a rather vague description that this would kick-in when there is a significant increase in funding; what does that mean, 1 million, 2 million, 5 million? At what point would the amount available for other grantee programs be reduced? April feels that these questions should be answered for the stakeholders.

V. OLD BUSINESS.

Innovative Funding Subcommittee – Discussion of Completed Report

Mr. Cummings stated that they outlined all 7 points at last month's Trust Fund Board meeting. The report was circulated to the board and then made public. He thanked the volunteers that participated and Helen Taylor for orchestrating the group. He added that he wanted to stress to the people that made public appearances today, and have concerns, that the whole focus of this effort is directly aimed at some of the points they were concerned about. There is always concern about transparency, but we try to be very transparent; we talk about the issues in public and guarantee that there are no smoke-filled rooms.

In 2010 the MNRTF reached the cap; in 2011 we passed the resolution to build a Stabilization Reserve Fund. A couple of things happened that helped mask what we'll refer to as the "new normal." We saw the bottom of the stock market on March 9th of 2010. After that period, when transitioning from our earning years to being self-sufficient, we had extraordinary returns. They were historic in their magnitude. These returns did two things: they allowed us to build up that Stabilization Fund. It also helped to mask some of that new normal. These large returns allowed us to keep up closer to where we had been in prior years, in terms of the annual large returns. Going forward, we need to understand and embrace the new normal.

We still maintained 10 percent in our Stabilization Fund, but if we continue to receive tepid returns, we will not be able to continue. In September the market was at its lowest, so we made the decision to dip into the Stabilization Fund. We did not want our grantees to suffer. We do not yet know what the returns will be for this year, but we have to take action if we want to perpetuate this program. We have to adjust our annual expectations of how we spend. If we continue to fund 20-30 million per year, and do not make adjustments, this program will not continue.

Mr. Cummings outlined the recommendations developed by the subcommittee. Some of the recommendations would require Board Policy action and others a Constitutional change. These recommendations are not necessarily for action at this time, but for discussion.

Recommendations are as follows:

1. **Adjust the current asset allocation of the MNRTF investments to increase the rate of return.** We are currently very heavy in bonds. We are working with Treasury for 100% greater returns and are already on the path to more aggressive asset allocations; greater exposure to alternatives, hedge funds, etc. The standard deviation did not go up significantly.
2. **Adjust the spending rule from 2.5 percent to a minimum of 3.5 percent, or higher, dependent upon project priorities and if annual investment returns can support an increase.** A few years ago, the Board adjusted the percentage down to 2.5 percent when the MNRTF cap was reached (\$500 million). The goal of this was to increase the

Stabilization Fund to allow for “smoothing” in years where there was not a significant return.

This was contemplated back in 2011 when we passed the resolution. It was to potentially be a temporary measure until we built up the Stabilization Fund. We can decide to do this in December, or when we’re looking at making decisions on the grants for the year. We were close to the 3.5 percent mark last year.

Mr. Cummings added that if we adjust the spending rule without adjusting the asset allocation, we will potentially do ourselves a disservice. With a combination of adjusting the spending rule if our asset allocation is successful in achieving higher alpha, those two things could get us back up to the \$20 million dollar mark per year. This should be a decision that we make annually.

Director Moritz added that the same goes for a bond situation; we need to be mindful of the consequences. It was his understanding that the 10 percent we maintain in the Stabilization Fund is a goal that we aspire to meet and is not aware if it is formal that we maintain that number or not.

Mr. Hamp stated that we do have opportunities to look at other multi-source funding initiatives so that we do not rely solely on the Trust Fund. We have opportunities to find partners and if we’re looking at some of these other initiatives we should be able to bring in other monies besides bonding.

Chairperson Canale added that a lot of property is acquired from private hands. We are working with the State Legislature on creating a special tax incentive for donations of a portion of land. An example would be if the land costs \$10 million and the person gives 20 percent as a gift as part of the project, they would get a greater write-off. This would only pertain to land contribution for public use.

Mr. Cummings added that this is all conceptual. If we are willing to look at multi-year grants, then we should consider looking at bonds also, as they are very similar. If we improve asset allocation to the point that we’re achieving that higher alpha then we’re actually positive arbitrage on that interest rate.

Authority to Implement: This percentage is a Board Policy and can be adjusted at the Board’s discretion. Need to discuss with Department of Treasury for guidance. Recommendation 1 should be implemented first.

- 3. Explore whether the MNRTF must maintain the acquisition or development “identity” on funds returned.** The Attorney General’s office was consulted and their informal review stated that revenues do not retain their identity of development or acquisition. The returned revenues, however, will have to have the formula applied once again as they are awarded.

Authority to Implement: This has already been completed. This was discussed with the Attorney General and the MNRTF has the authority. The Michigan Constitution allows the “identities” to reset with lapsed/withdrawn applications.

4. **The MNRTF Board should adopt the following principles in managing the MNRTF:**
 - A. Rename all reserve and growth funds as “Stabilization Fund”;**
 - B. Treat the MNRTF as an endowment to be maintained and utilized in perpetuity;**
 - C. Anticipate market fluctuations by maintaining an appropriate investment portfolio with adequate resources to offset declines in income; and**
 - D. Be prepared to act on large initiatives and statewide priorities.**

Mr. Cummings stated that we can take action on A. Letter D. should be its own bullet point. This is being worked on outside of the Trust Fund and was the inspiration in finding non-traditional ways that we can expand and fund conservation and outdoor public recreation in Michigan. Then we would not be fully dependent on only one or two funding sources. The goal is to try and be able to act on large initiatives and maintain the ability to fund at a consistent level; for both regional and other state initiatives as we have done in the past.

Chairperson Canale stated that the Trust Fund is an asset of the state, but it does not exist in isolation. We are acting as an endowment. We need to expand our thinking relative to what is the best way to handle large acquisitions; possibly a partnership could be developed in a financial/public policy. An example would be the state and community partnering together to float a bond, or pay off over 20-30 years. We need to think about special millages, etc. If we have a unique piece of property that costs \$20 million, but is uniquely strategic to the future of Environmental Programs in the state of Michigan, how do we make this happen? The state only has so much land, and only so much of that land will be dedicated to recreation, so let’s define that and work towards achieving a plan. We need to work with the State Legislature and State Budget Office on coming up with a solution to what would be the best public and financial policy to say “could we allocate/dedicate a stream that every so often the partnership comes together to bond \$40 million for 5 projects across the state because they’re timely and strategic.”

Ms. McDonough thanked the groups that came to comment at the meeting today regarding the Innovative Finance Report. She feels that there were many good questions that came out of those comments that need to be addressed as we think through the direction that this is going to go.

Ms. McDonough also added that number 4. D. has consistent themes heard from stakeholders; “what is that going to mean for local communities ability to choose what is important versus the focus on these broad statewide initiatives?” This is a very important concept to balance. Also, what is going to define these initiatives? What is

that going to do to the money that is available to local communities to choose what's important to them that will help balance their recreation and economic picture?

Authority to Implement: The MNRTF Board has the authority to adopt this recommendation.

5. **Bonds are a possible vehicle to fund statewide recreational projects and priorities.**

This will require a lot of discussion and action. We cannot do it alone, nor would it be done without public input and comment. This certainly is a possibility for a potentially large scale project.

Authority to Implement: The MNRTF Board has the authority to recommend bonding. The Michigan Strategic Fund has the authority to bond. The Michigan DNR would request a line item appropriation for debt service.

6. **Work with MNRTF staff and the Board to streamline administrative requirements, expand grant award frequency, and provide regional planning to communities to identify priority projects. Examples are:**

- **Explore legislative approval of a lump sum appropriation for high priority projects to be managed and executed by the MNRTF Board;**
- **Award projects in phases to span multiple years enabling large projects to be funded;**
- **Increase the number of application deadlines throughout the year;**
- **Manage annual cash-flow and projections to enable more than one grant approval cycle;**
- **Increase the number of supplemental bills annually submitted for legislative approval to increase cash flow to projects, enabling timely project development;**
- **Streamline administrative functions to:**
 - o **Process a greater volume of grant applications; and**
 - o **Enable staff to facilitate regional projects to enhance collaboration, leverage MNRTF resources, and identify additional priority initiatives. The regional role MNRTF staff might play could be aligned with the Administration's prosperity regions, strengthening integration with multiple state department strategies.**

This will require further discussion, mostly relative to staff capacity. It is also potentially subject to a special appropriation that will not take place without a lot of public discussion.

Helen wanted to clarify comments pertaining to number 6 regarding April Scholtz's concerns. She stated that staff shared that they spend a ton of time hand holding

applicants. Her personal opinion is that it is way more time than should be spent. More time should be spent out in our communities that do not have a land trust to help them. Communities should work together. This would help to lower the administrative costs.

Authority to Implement: The MNRTF Board and DNR have the authority to implement administrative process changes.

7. **Continue to grow the MNRTF to maintain purchasing power, index to inflation, and dedicate mineral revenue to natural resources for the future.** This would require an amendment to the Michigan Constitution, which is not recommended at this time; however, if in the future there is an initiative to amend the Constitution, that consideration be given to indexing the MNRTF to inflation, and seek permanent dedication of mineral revenues to natural resource conservation. Under current Constitutional language, once the State Park Endowment Fund reaches \$800 million, the mineral revenue is to be deposited as provided by law. Revision of this language to dedicate those revenues to natural resources for the future should be pursued before the end of 2018.

Authority to Implement: Constitutional Amendment.

VI. NEW BUSINESS.

Update on MNRTF Staff Activities

Mr. Mayes outlined various MNRTF staff activities:

- Jon introduced Rachel Schumaker, the new Administrative Assistant to the Board.
- The Governor signed the Trust Fund bill into law. The bill was signed early, giving us plenty of time to get Project Agreements in place in time for the construction season. The press release has gone out from the Governor's Office, so the public is aware of this.
- 2016 is the 40th anniversary of the MNRTF Program. A number of recognition activities are being planned. Merrie Carlock is taking the lead on planning activities. We tentatively have four events that will be taking place. One is a shared event with the Michigan Oil and Gas Association that will be held the evening of May 18th. At the June and August Board Meetings we will have cake to celebrate. We are also planning an evening event to be held in Lansing the night before the October Board Meeting.
- We have been chosen by our Executive Office to review the MNRTF processes. We will be holding a 4-day Lean Process Initiative workshop in June, dates are to be determined, where we will work to review any processes/areas that may be streamlined. After the 4-day workshop, there will be follow-up meetings to work on the recommendations that will be generated during the workshop.

Ms. Amy Matisoff gave a brief update on the MiRecGrants online software program. In May of 2013 the requests for proposals were released from DTMB. At that time, our goals for the online system were to house all data on servers that could be accessed remotely by grantees and staff via the internet, reduce the amount of paper used by the section, to save time during the grant application and grant project time line by allowing for real time updates and reviews and allow for faster customer service response time. Several companies submitted proposals for the grants management system and after careful review and evaluation it led to the selection of Agate Software located in Okemos. We signed the contract for installation of MiRecGrants in June of 2013. The contract end date was originally set for September 30, 2015. In February of 2014 the first electronic grant applications were released for public use for Trust Fund, Land and Water Conservation Fund and Recreation Passport Grants. After many months of working through the application development side of things we found that our key elements required for this system were the following;

- To accept the submissions of recreation plans
- Accept grant applications annually for five grant programs
- Produce bi-monthly reports for board meetings
- Produce project agreements and amendments
- Accept awarded grant project documents for development and acquisition projects
- House and report all financial processes for each open grant project
- Store and manage all LEGACY data records for encumbered grant projects

In February of 2016 we successfully migrated 3,727 past records of grant projects to MiRecGrants. Grantees have the ability to generate grant history reports 24 hours a day. In March of 2016 the original list of contract deliverables had been successfully completed. To date, we have successfully completed three cycles of accepting grant applications online. We will update the system as needed, when there are policy changes, etc.

Ms. McDonough commented that she has had grant applicants comment to her on how great MiRecGrants is and how much easier it has made the process. She commented on Helen Taylor's response to number 6 of the Innovative Finance Report; do we think this program is helpful with freeing up time to be out in the communities more?

Ms. Matisoff stated that the response time is real time. It saves much more time on the front end of the processes. It provides live access when the Grant Coordinators are in the field.

Mr. Moritz added that we have been looking into being more efficient and responsive and feels that the work Jon will be doing with the Lean Process Initiatives will be very important. We have seen tremendous growth in efficiencies in many other areas of the department by systematically looking at their processes.

2016 Application Cycle and Applications Received

Ms. Tamara Jorkasky referenced a map that was projected. The map was an overview of all of the Development and Acquisition applications that were received. There were a total of 28 Acquisition applications and 144 Development applications, bringing the total to 172 applications received overall. There was a total of \$72.5 million in requests. That is up \$22

million from the last cycle. Copies of the Grant Applications Report were given to the board. We are just starting our Administrative Completeness Reviews, which is a general eligibility review, and will be conducting site visits in June and July.

Mr. Cummings added that it is important to recognize the difference between what funds are available and what was applied for. We need to spend wisely annually and we are going to have some tough choices this year, as all are great projects.

VII. STATUS REPORTS.

DNR Real Estate Report

Mr. Scott Goeman introduced himself as the new Real Estate Services Section Manager. He stated that two properties had been approved since the last board meeting. One is a 6 ½-acre piece of property located near Copper Harbor. It was appraised and will be acquired for \$430,000 for the Parks and Recreation Division to add to the Fort Wilkins State Park. The second is a 52-acre parcel on the shoreline of Lake Superior in Chippewa County. It has approximately 1,000 feet of water frontage on Lake Superior and also border's state forest land on the 3 other sides. It was acquired for \$255,000. He added that he is looking forward to working with the board and our grantees.

Completed MNRTF Projects Report

No discussion.

MNRTF Financial Report

Ms. Schafer outlined the MNRTF financial report.

Ms. Schafer stated that the 2016 beginning investment balance was \$578 million which is slightly lower than last year. She reminded everyone that all numbers are estimated with the exception of the \$578 million.

The investment income is estimated at \$31.8 million. This is based on a 5.5 percent return. The balance of other income was \$150,000.

To date, we have projects that have lapsed or been withdrawn in the amount of \$1.2 million.

We are looking at spending approximately \$15.8 million. This number is derived from our estimated investment income and our spending plan of 2.5 percent. That would be \$14.4 million. The other income of \$150,000 is also counted towards that number as well as the re-authorization of the lapses, which is \$1.2 million. If no other action is taken on the Board's part at the December meeting, and if our returns come in where we expect, we would end the year with just under \$600 million in the MNRTF account. Keep in mind that those numbers will be more accurate when we know the exact numbers of our investment income and after the December Board meeting.

At this point Ms. Schafer went into a little more detail of breaking down what that \$15.8 million is used for. It pays for the staff. It also pays for our payment-in-lieu of taxes (PILT). As the Trust Fund continues to acquire land, it pays 100 percent of the PILT associated with those lands. We also pay Treasury for the great work that they do with our investments. There is a total of \$8.3 million projected to be available for acquisition projects and just under \$4 million for development projects.

Ms. McDonough stated that we should be looking at our PILT Policy and what can be done moving forward to talk to communities about waiving that PILT number. This would better enable them to obtain some of these projects that are helping to enhance their regional economy.

Ms. Schafer added that PILT of taxes only applies to parcels that are held by the state.

Ms. McDonough added that there are a couple of questions that should be answered before moving forward. We need to define our action plans. Are these action plans that are being defined per each of the items? What is the stakeholder engagement process going to be for defining these actions? Are we going to lay that out and help people understand what that is prior to approving any action plans?

MNRTF Land Consolidation and Line Item Department Projects

No discussion.

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

None.

IX. ANNOUNCEMENTS.

The next meeting of the Michigan Natural Resources Trust Fund Board is scheduled for 9:00 AM, Wednesday, June 15, 2016, Portage Point Inn, 8567 Portage Point Drive, Onkama, Michigan.

X. ADJOURNMENT.

MOVED BY CHAIRPERSON CANALE, SUPPORTED BY MR. MORITZ TO ADJOURN THE MEETING. MOTION PASSED WITHOUT DISSENTING VOTE.

The meeting was adjourned at 10:15 AM.

Brad Canale, Chairperson
Michigan Natural Resources Trust Fund
Board of Trustees

Steven J. DeBrabander, Manager
Grants Management Section
Finance and Operations Division

DATE