

MICHIGAN NATURAL RESOURCES TRUST FUND

BOARD OF TRUSTEES MEETING

Minutes of February 20, 2013

Lansing Community College West Campus, 5708 Cornerstone, Lansing
9:00 AM

The meeting of the Michigan Natural Resources Trust Fund (MNRTF) Board of Trustees commenced at 9:00 AM.

The following Board members were present:

Brad Canale
Keith Charters
Keith Creagh
Sam Cummings
Bob Garner

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

I. ADOPTION OF MINUTES FOR MEETINGS OF DECEMBER 4 AND 5, 2012.

Chairperson Cummings called for the adoption of the minutes for the December 4 and 5, 2012 MNRTF Board meetings.

MOVED BY MR. GARNER, SUPPORTED BY DIRECTOR CREAGH, TO APPROVE THE MINUTES FO THE DECEMBER 4 AND 5, 2012 MNRTF BOARD MEETING. PASSED WITHOUT DISSENTING VOTE.

II. ADOPTION OF AGENDA FOR MEETING OF FEBRUARY 20, 2013.

Chairperson Cummings called for the adoption of the agenda for the February 20, 2013 MNRTF Board meeting.

MOVED BY MR. CANALE, SUPPORTED BY MR. GARNER, TO ADOPT THE AGENDA FOR THE FEBRUARY 20, 2013 MNRTF BOARD MEETING. PASSED WITHOUT DISSENTING VOTE.

III. PUBLIC APPEARANCES.

Mr. Dan Quigley, Investment Specialist; Mr. Greg Parker, Director of Investments; and Mr. Rick DiBartolomeo, Michigan Department of Treasury – MNRTF Investments

Mr. Dan Quigley, Investment Specialist, Trusts and Agencies Division, Michigan Department of Treasury, provided a PowerPoint presentation to outline MNRTF investments. These include returns on investments, as well as what is in the portfolio

Mr. Quigley highlighted the investments. The total market value of the fund is \$700.76 million. The DNR amount available for investment is \$559.18 million. These figures are as of December 31, 2012.

The asset allocation for the MNRTF is \$559.18 million. The breakdown for target allocations is 23% equity, 70% bonds and 7% alternatives. The actual allocations are 18.8% equity, 68.2% bonds, 11.4% cash, and 1.5% alternatives. Since December 31, 2012, \$40 million has been committed of \$63 million cash available for investment. About half of the money was invested in corporate bonds. Around \$16 million was put in the equity portfolio. The alternative investments were in income-generating strategy, mainly direct lending or corporate loans.

There are 71 bond holdings in the portfolio. Of the bond holdings, 80% are to corporate bonds and 20% is spread between mortgage securities as well as other structured holdings. As of December 31, 2012, the totals for portfolio holdings were \$105.3 million (equity holdings), \$8.5 million (alternative holdings), and \$205.5 million (cash) for a total of \$700.7 million.

The estimated income and dividends for the MNRTF over the next 12 months include \$12.5 million (bonds), \$513,827 (common cash) and \$4.4 million (equity dividends), for a total estimated income and dividends of \$17.4 million.

Mr. Quigley outlined the investment return performance summary for the Board. These include short-term investments, U.S. government bonds, corporate bonds, total equities and limited partnerships.

At this point, Mr. Greg Parker outlined the economic growth. These were identified in graphics format. This covers trends from 1990 to 2012:

- GDP - Annualized Quarter over Quarter Growth (-0.1% December 2012)
- Manufacturing/Non-Manufacturing (56.4% Non-Manufacturing, 53.1 % Manufacturing as of January 2012)
- U.S. Leading Economic Indicators (LEI 93.9 as of December 2012)
- Relationship between FedEx Shipments and GDP Growth (down in GDP and shipments)
- Job Market Growth (added 130,000-140,000 jobs per month)
- Initial Unemployment Claims (claims are down)

- Percent Job Losses in Post WWI Recessions (shows lost a lot of jobs and slow to recover)
- CEO and Consumer Confidence (73.8% Consumer and 46% Business as of December 2012)
- Housing Affordability Composite Index (market/economy should be able to absorb)
- Existing Home Sales and Housing Starts (12.8% existing homes sales and 36.9% new housing starts as of December 2012)
- U.S. Light Vehicle Sales (15.23 million as of January, manufacturing profiting)
- Financial Obligations as Percent of Disposable Income (down – 15.74% debt/income Q3 in 2012)
- Corporate Profits (profits up)
- U.S. Corporate Profits as a Percent of GDP (profits up)
- U.S. Wages vs. Corporate Profits (corporate profits increasing and wages to employees are not keeping up with profit growth)
- Capital Spending-New Orders for Durable Goods (excluding aircraft and defense) (1.2% new orders as of December 2012; -4.6% aircraft as of December 2012)

At this point, Mr. Joe Frick, Assistant Chief, Finance and Operations Division, DNR, provided some additional information on the MNRTF investment plan via PowerPoint. The MNRTF has been spending 5% since the beginning of the year and we have talked about changing that to something less because of the uncertainty of being able to earn that figure. In addition, we had discussed going through an averaging method, where an average would be used rather than a percentage. Making that change at this point, however, might not be wise because we need to grow reserves and the strong recent average returns would result in larger spending than the revenues we should expect in the near-term,

In the past, if we had investment earnings of more than 5%, we would put it in the reserve, which is now at \$60 million. If it was under 5%, we would withdraw from the reserve to make payments. The reserve also provides extra money to invest.

We no longer have the one-third mineral revenue to absorb losses. Costs that have to be provided for are payments in-lieu of taxes, staff costs and by Constitution, 25% of the amount available has to be spent for land grants. In addition, we need to be careful not to go below the corpus because we are only supposed to be spending our investment income.

Program levels should be sustained, so that both the investment and spending grow together. This has been discussed by the Board. Also, development grant funding should be maximized. We can spend up to 25% for development.

The minimum budget requirements would be prioritized—operating costs, payments in-lieu of taxes, etc.

Proposals for the investment spend plan include:

- Tiered priorities for use of new revenue
 1. Minimum budget requirements
 2. Development spending (25%)
 3. Investment growth reserves equal to spending growth (3%)
 4. Stabilization reserve target
 5. Additional land and development spending strategy
- Spend average investment income rather than fixed percentage
 1. Automatically adjusts to actual results
 2. Still provides smoothing for spending levels
- Hold acquisition funds in reserves, maximize development
- Become more aggressive in asset allocation plan over time

Mr. Quigley continued by outlining the MNRTF asset allocation, which included the following:

- The market value of the MNRTF used for the analysis was \$560 million.
- The MNRTF has the following objectives:
 - Ensure that the market value of the MNRTF does not fall below \$500 million
 - Meets the following spending goals:
 - o Appropriations minimum - \$5.5 million
 - o Prioritized development spending - \$2.75 million
 - o Growth retention - \$15.5 million
 - o Stabilization reserve - \$0
 - o Additional grants - \$4.25 million
 - Concurrent to the spending goals – budget for future growth in spending for the MNRTF at a rate of 3% per year

The first priority for the investment portfolio is to maintain a principal value that exceeds \$500 million. The MNRTF currently has a \$60 million cash buffer over the \$500 million level, which equates to approximately 11% of the market value. This suggests a relatively conservative asset allocation for the MNRTF.

Doing a risk and return study, using these figures a 100% equity portfolio would have roughly a 12% chance of losing more than \$60 million in a calendar year, where a bond portfolio would have less than 1% chance of losing this amount. Because of this constraint, the Department of Treasury recommends a lower risk asset allocation that more closely mirrors the volatility of bond returns than stock returns.

Asset allocations are recommended as follows: 70% bonds, 20% equities and 10% alternative investments. This would have a long-term return projection of approximately 5.5%. Assuming 3% of the MNRTF returns must be used to preserve future spending growth, the fund can budget to spend approximately 2.5% of fund returns while maintaining the inflation-adjusted market value of the fund. Using \$560 million as the current market value, this implies a current spending level of \$14 million.

Chairperson Cummings encouraged the Board to adopt an investment policy based on information provided. Mr. Charters also supported the information provided by the Department of Treasury staff.

Discussion ensued with Board members asking questions regarding the MNRTF asset allocation and other information presented by Department of Treasury staff.

Mr. Frick added that we can now invest operating cash in something else other than the state common cash fund. Staff will be working on some cash flow projections.

Chairperson Cummings thanked the Department of Treasury representatives for making their presentation.

Chairperson Cummings asked if the Board should make a motion at this time to adopt an investment policy. Mr. Garner suggested that the two Board members who have working on the MNRTF investment policy, Chairperson Cummings and Mr. Charters, work on the wording of the motion, and that it be adopted at the April 17, 2013 Board meeting. Treasury staff added that the State Treasurer has the primary authority and responsibility for managing the investments. You may want to check with the Attorney General's office before adopting the motion. Chairperson Cummings and Mr. Charters asked Mr. Frick to put together a draft motion for the Board's review.

Ms. Julie Cowie, Casco Township, and Ms. Pam Blough. P. M. Blough, Inc. – TF07-170, TF08-145, TF10-067 and TF10-066 – Casco Township Nature Preserve – Expansion and Development

Ms. Julie Cowie, Casco Township, and Ms. Pam Blough, P. M. Blough, Inc., made a PowerPoint presentation outlining the expansion and development of the Casco Township Nature Preserve. The township received phased acquisition grants in 2007 and 2008, and in 2010 received both an acquisition and development grant.

Development included universally-accessible pathways and parking, picnic tables, benches, and waterless vault toilet (universally-accessible).

In 2012, the cottage that was on the property was sold for \$1.00, moved and renovated as an upscale lakeshore cottage on a new lot.

A grand opening of the nature preserve was held September of 2012.

The township also received a Coastal Zone Management grant from the Department of Environmental Quality to construct a viewing platform.

The township wished to make the Board aware of accomplishments of the project and to thank them for their recommendations of the grants.

Ms. Cowie added that she appreciated the opportunity to obtain the acquisition with an escrow option. This allows small communities to more easily acquire property.

Chairperson Cummings and Mr. Garner expressed the importance of local units of government letting their elected officials know how the MNRTF program has impacted the community. It was noted that Casco Township's elected official was not in favor of the MNRTF. Hearing from a constituent is very important.

Mr. Tom Bailey, Executive Director, Little Traverse Conservancy

Mr. Tom Bailey, Executive Director of Little Traverse Conservancy, made some comments about a gap analysis being prepared. This is an analysis for what is really needed, such as trails, parks, forests, recreation, etc. This analysis is needed for future acquisition efforts, budgeting and planning.

Mr. Bailey wondered if a gap analysis was a worthy investment for the MNRTF to fund using administrative funds to jump start the analysis. With the Board's strategy planning, this gap analysis could determine recreational needs. It would help inform the Board's efforts of the MNRTF for the future.

Mr. Canale commented that this could tie into what the Board is doing now with the investment policy. This analysis could also identify the economic impact—tourism, etc. Director Creagh also added that the DNR is preparing a land plan, so he feels it may be a little premature to look for funding of a gap analysis. He feels we should figure out what our assets and attributes are first.

Mr. Garner stated that he does not ever recall the Board funding any sort of analysis in the past.

IV. OLD BUSINESS.

The MNRTF Phase II: refining the Vision for a New Era – Investment and Spending Policy was not discussed further.

V. NEW BUSINESS.

Update on MNRTF Staff Activities

Mr. Steve DeBrabander, Manager, Grants Management, Finance and Operations Division, DNR, outlined MNRTF staff activities since the last Board meeting.

- Seven out of the eight recreation grant workshops have been completed. Completed workshops are Baraga, Munising, St. Ignace, Grayling, Big Rapids, Kalamazoo and Livonia. The last workshop will be at the Michigan Recreation and Park Association Conference in Lansing on February 27.
- Staff will be participating in six additional Place Making workshops with four other state departments—Michigan Department of Transportation, Michigan Department of Environmental Quality, Michigan State Housing Development Authority and Michigan Economic Development Commission.
- An initiative of Grants Management is to get caught up on post-completion inspections. This is a requirement of the Land and Water Conservation Fund and MNRTF to inspect past grant-assisted sites every five years. Since the beginning of these programs, there are over 4,000 sites that need to be inspected. We have implemented a post-completion self-certification inspection process to get caught up.
- New recognition signs have been developed for all grant programs that require signage and we have seen an increase in sign purchases.
- On January 16, 2013, we received a letter from the Office of the Auditor General regarding the MNRTF audit that was requested by Senator Booher. A portion of that letter reads "...results of our preliminary review did not disclose significant issues related to the part of the processes that would warrant the additional cost of continuing the performance audit of the Trust Fund. Therefore, we have terminated the audit." Mr. Garner asked if the MNRTF paid for the audit. Mr. DeBrabander responded it did not.
- A summit of planners and advisory boards that advise the DNR was held on January 11, 2013, at the Ralph A. MacMullan Center in Roscommon. This was to share information on the results of completed plans and give updates on some of the planning that was going on. Four of the MNRTF Board members were in attendance. Chairperson Cummings stated that at the end of the meeting what he found encouraging was the constituencies supporting the DNR, recognizing how important it was, and identifying common goals.
- Mr. Garner and Mr. DeBrabander made a presentation on the MNRTF program at a meeting with the South Oakland County Mayors Association.

State Projects Report – Progress on Projects Over Three Years Old

Mr. Jon Mayes, Unit Manager, MNRTF, Grants Management, DNR, outlined the progress made on closing out old projects over three years old. Notice will be given to the DNR divisions involved to make Grants Management aware of progress for completion or funds may lapse.

TF09-136 and TF10-125 – Menominee River Oxbow Acquisition – DNR, Forest Resources Division – **PROJECT WITHDRAWAL**

TF09-137, Little Pigeon River Property Acquisition – DNR, Forest Resources Division – **PROJECT WITHDRAWAL**

Mr. Mayes advised the Board that there were three DNR, Forest Resources Division projects that are being withdrawn – TF09-136 and TF10-125, Menominee River Property Acquisition; and TF09-137, Little Pigeon River Property Acquisition.

The total amount of project withdrawals is \$4.8 million. The funds will be returned to the MNRTF stabilization reserve.

MOVED BY MR. GARNER, SUPPORTED BY MR. CHARTERS, TO ACCEPT STAFF RECOMMENDATIONS TO WITHDRAW TF09-136 AND TF10-125, MENOMINEE RIVER OXBOW ACQUISITION; AND TF09-137, LITTLE PIGEON RIVER PROPERTY ACQUISITION, DNR, FOREST RESOURCES DIVISION. PASSED WITHOUT DISSENTING VOTE.

VI. STATUS REPORTS.

DNR Real Estate Report – State Acquisitions

Mr. Steve Sutton, Manager, Real Estate Services Section, Finance and Operations Division, DNR, outlined the DNR real estate report – state acquisitions. There was only one transaction within the last two months – Hill Tract, Northern Lower Peninsula Eco-Regional Land Consolidation project in Crawford County. The property acquired was 40 acres within the Grayling Management Unit, for a purchase price of \$66,000.

Real Estate Services Section is involved in some other parcels to acquire, but are waiting for local units of government review and approvals before proceeding with the purchase.

The northern lower and the Upper Peninsula eco-region project funds have been exhausted. Staff will be reviewing how to approach the MNRTF for acquiring properties – will not be looking at the eco-region approach, but rather line items.

Mr. Charters asked if the Land Exchange funds can be used for inholdings. Mr. Sutton responded yes, but there is a limited supply of funds – less than \$2 million.

Director Creagh added that the Land Review Plan is to be completed in May.

MNRTF Land Consolidation and Line Item Department Projects

Mr. Charters was pleased with the changes that have been made to this report. Mr. DeBrabander stated that Ms. Janet Liesman, Financial Analyst for the MNRTF, Grants Management, put a lot of time into the changes to this report.

MNRTF Financial Report

Mr. Frick outlined the MNRTF financial report. Using the old 5% distribution method, \$28 million would be available for projects in 2013. Of this, \$7 million (25%) could be allocated for development projects and \$17 million for acquisition projects (or to set aside in the reserve). In the recent past and in the future proposal, additional reserve growth primarily comes from spending less than the maximum available for acquisitions.

Mr. Canale suggested that the payments in-lieu of taxes, under “Administrative Expenses” be listed as a separate line-item. Mr. Frick agreed and said he would have this changed in future reports.

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

Mr. Garner suggested having a real estate expert make a public appearance to advise the Board of the trends in real estate—where land prices are going, are they going up, what land is available, etc. The Board members were agreeable to this suggestion, and staff will make arrangements.

Mr. Garner also suggested having a second deadline for acquisition projects again, as there is currently a larger amount to spend. Chairperson Cummings deferred this suggestion to Grants Management staff to investigate possibilities. He suggested Mr. Garner develop a motion to be made at the Board’s April meeting.

Director Creagh mentioned that both he and Chairperson Cummings will be attending a joint hearing before the House Appropriations and Policy Committee tomorrow (February 21) talking about the MNRTF.

Director Creagh stated that there have been numerous conversations about using the MNRTF for dredging. The Governor put \$21.5 million in his supplemental. General Fund and Waterways Fund monies are suggested to be used for this dredging program. MNRTF monies are not an appropriate funding source for dredging. The DNR has suggested for long-term dredging needs (estimated to be approximately \$10 million), the Transportation Bill could cover this.

Director Creagh mentioned aspects of the Land Cap Bill.

The Legislature will be provided lists (bi-monthly) of the status of MNRTF projects. This will be in an easy to understand format.

Director Creagh also mentioned conversations as to using MNRTF funds for maintenance projects. This would require a Constitutional Amendment.

There is a restructured license package has been prepared – going from 227 to 31 licenses. This has been well-received by the Legislature.

Director Creagh further stated that the DNR is looking at how to repurpose some of the land it owns.

Chairperson Cummings asked if the Board could receive information on the dredging proposal. [NOTE: Director Creagh provided this to Board members via email on February 20, 2013]

Ms. Linda Harlow, Administrative Assistant for Grants Management and MNRTF Board, advised the Board that the June 19 Board meeting will be in Mackinaw City. Activities are being planned for the day (tour) and evening (dark sky viewing cruise) on June 18. The Board meeting will be held at St. Anthony's Catholic Church Community Room. Emmet County will be hosting the June meeting.

VIII. ANNOUNCEMENTS.

The next meeting of the Michigan Natural Resources Trust Fund Board is scheduled for 9:00 AM, Wednesday, April 17, 2013, at the Ramada Inn Hotel and Conference Center, 7501 W. Saginaw Highway, Lansing, Michigan.

IX. ADJOURNMENT.

**MOVED BY MR. GARNER, SUPPORTED BY MR. CHARTERS, TO
ADJOURN THE MEETING. PASSED WITHOUT DISSENTING VOTE.**

The meeting was adjourned at 11:10 AM.

Sam Cummings, Chairperson
Michigan Natural Resources Trust Fund
Board of Trustees

Steven J. DeBrabander, Manager
Grants Management

DATE

