STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT
LANSING

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NONMETALLIC MINERAL LEASING PROGRAM REPORT
for
FISCAL YEAR 2009-2010

AUTHORITY:

Part 5, Section 502, Act 451, Public Acts of 1994, as amended, authorizes the Department of Natural Resources and Environment (DNRE) to enter into contracts for the nonmetallic minerals leasing program. DNRE Procedures for nonmetallic mineral leases on state lands directs staff to continue to evaluate and review the program and provide an annual report. This Fiscal Year (FY) 2010 report covering activity from October 1, 2009 through September 30, 2010, was created by the Mineral and Land Management staff, Forest Management Division (FMD).

LEASE TERMS:

General Nonmetallic Lease: Terms of the lease include a ten-year primary term, a $1.00 per acre minimum bid, and a rental rate commencing at $3.00 per acre, per year for the first five years. In the absence of mining operations, a minimum royalty is due for years six through ten. The rate begins at $10.00 per acre for the sixth year and escalates $5.00 per acre per year until the tenth year when the rate is $30.00 per acre. A production royalty of between two percent and seven percent, which varies by product and amount sold, is required when production occurs.

Special Leases: These leases have a minimum annual production royalty instead of rentals and minimum bid rates. Bidding for these leases is based upon the highest royalty rate per ton of material removed. The basic term of the lease is seven years with the possibility of a three-year extension to ten years, if it is in the best interest of the state. Special leases were developed for construction sand, gravel, cobbles, boulders and clay, salt and limestone/dolomite. These apply to existing locations ready to mine; no exploration period is involved.

Under both types of leases, the maximum lease size is 640 acres. **There are 171 state nonmetallic mineral leases covering 35,028 acres at the end of FY2010.**

NOMINATIONS:

One nomination for two sand and gravel leases was received in FY2010 from the USDA Forest Service to replace previous permits. The process is primarily to convert previous sand and gravel permits to leases for better control, bonding, and reclamation. This conversion has been nearly finished. One nomination for iron ore tailings covering 556 acres was also received in FY2010.

ASSIGNMENTS:

There were no assignments of nonmetallic mineral leases in FY2010.

RELEASES:

No nonmetallic mineral leases were terminated in FY2010.

EXTENSIONS:

There were five, three-year, extensions of nonmetallic sand and gravel leases in FY2010.

DIRECT LEASES:

Direct nonmetallic mineral leases are only issued under special conditions at negotiated royalty rates. No direct nonmetallic mineral leases, at an agreed upon fixed-royalty rate, were issued during FY2010. Additional county road commission or governmental leases may be requested in FY2011.

SEALED BID LEASES:

Three potash nominations were received in FY2008 and FY2009. These nominations were included in a sealed bid auction held in August 2009. Of the nominated 84,001 acres, 31,362 acres were leased at or above the required minimum bid of $5.00 per acre. The 121 leases were approved for leasing and issued in FY2010, on an upoated salt lease.

REVENUE and DISTRIBUTION:

Revenue:

During FY2010, total income from nonmetallic minerals activities on state lands was $470,475.00. The income from FMD nonmetallic mineral permit activities on state lands was $15,869.00. The total royalty income from the nonmetallic leases was $453,612.00.

The chart below gives a historical overview of revenue received from this program.

REVENUE FROM NONMETALLIC MINERAL LEASING

YEAR	PERMIT ACTIVITY	RENTAL	BONUS	ROYALTY	TOTAL INCOME	LEASED ACRES
2001	$ 362,861	$ 3,600	$ 0	$ 776,402	$1,142,863	710
2002	$ 227,620	$ 2,236	$ 0	$1,105,898	$1,335,754	1,201
2003	$ 221,596	$ 55	$ 0	$ 769,947	$ 991,598	2,032^
2004	$ 130,857	$ 55	$ 0	$ 572,105	$ 703,017	1,858
2005	$ 44,998	$ 0	$ 0	$ 288,169	$ 333,167	2,466
2006	$ 29,400	$ 64	$ 0	$ 778,686	$ 808,150	2,934
2007	$ 27,200	$ 78	$ 0	$ 424,248	$ 451,526	3,537
2008	$ 7,500	$ 93	$ 309	$ 636,781	$ 644,683	3,688
2009	$ 0	$ 94,688	$348,005	$ 323,262	$ 765,955	3,666
2010	$ 15,869	$ 994	$ 0	$ 453,612	$ 470,475	35,028
TOTAL	**$1,067,901**	**$101,863**	**$348,314**	**$6,129,110**	**$7,647,188**	

^ Leases originally leased in 2003 were updated and the date was changed into FY2005.

LEASE AUDITING:

In addition to staff reviewing various reports to ensure appropriate payments have been received, the DNRE began conducting independently contracted audit reviews in 2001 for the nonmetallic mineral leasing program. The decision to audit was based upon recommendations made by the Office of Auditor General to expand the DNRE audit program beyond the oil and gas program.

Although the return has not been as prominent as the oil and gas program, the periodic reviews do continue to be an effective tool for ensuring compliance with the DNRE lease terms. Two of the reviews resulted in refunds being issued, which were due to the companies overpaying royalty to the DNRE. The table below describes the number and results of the settled reviews, as well as any audits in process.

FY 2010 Settlement Results:

Number of Company Audits	Number of Units Audited	Amount Due to the State	Amount Currently Collected	Amount Refunded to Company	Refund Savings Resulting from Audit Disallowances	Contract Costs Where Settlement has Occurred
1	1	$810	$810	$0	$0	$8,000

Overall Summary:

	Number of Company Audits	Number of Units Audited	Amount Due to the State	Amount Currently Collected	Amount Refunded to Company	Refund Savings Resulting from Audit Disallowances	Contract Costs Where Settlement has Occurred
Settled Audits	9	9	$51,216	$51,216	$31,499	$0	$132,400
Pending Audits	None						

DISTRIBUTION:

Revenue involving bonus, rent, and royalty received from the nonmetallic mineral leasing program, is deposited into the Michigan Natural Resources Trust Fund (MNRTF) and Game and Fish Protection Trust Fund (GFPTF), which includes the federal Pittman-Robertson and Dingell-Johnson Funds. Processing fees, also known as application review fees, are deposited into the Forest Land User Fund.

In FY2010, approximately 98 percent of the bonus, rent, and royalties received from the nonmetallic mineral leases was deposited into the MNRTF. The GFPTF received the remaining two percent.

MICHIGAN NONMETALLIC MINERALS ACTIVITY:

The production of nonmetallic minerals continued to have an important role in Michigan's statewide mineral production activity in FY2010 and will continue to do so in FY2011. Michigan ranks near the top in the U.S. for the value of the nonmetallic minerals produced. The production of nonmetallic minerals from state-owned land continues to be an important source of locally utilized materials for road and other construction purposes.

PROGRAM HISTORY AND PLANS FOR 2011:

A review of the state nonmetallic minerals lease and the sand and gravel pit annual permit process, began in 1995, produced a number of recommendations. A lease document specific to the production of frequent, large quantities of sand and gravel from selected pits was the major recommendation. The 'Construction Sand, Gravel, Cobbles, Boulders, and Clay' lease document was completed by the end of FY1998 after several months of review and revisions by representatives of DNRE, outside agencies, a user group, and an environmental organization. The first lease sale of this type was held in early FY1999. Four select state sand and gravel pits were offered by the sealed bid process in FY2001. These pits were to be leased in FY2001, however; a problem with the auction notice occurred and the process was started over. Additional revisions of Policy and Procedures in the nonmetallic lease program are on-going.

A variation of the 'Construction Sand, Gravel, Cobbles, Boulders, and Clay' lease document was also developed for leasing to county road commissions to replace sand and gravel permits. These leases have a fixed royalty rate per ton at a lower rate than the commercial leases. Thirteen leases were issued under the new lease documents in FY2003, but 12 had to be updated with a new date of issue in FY2005. Nine new leases were issued in FY2007, two leases issued in FY2008 and FY2009 and additional nonmetallic leases are in process and should be leased during FY2011.

The nonmetallic mineral leasing procedures were reviewed in FY2010 by a committee of industry and private individuals, and have been approved by the Director of the DNRE. The existing salt lease was updated to include potassium chloride (potash) for the 121 leases that were issued in FY2010.

The remaining nonmetallic mineral leases will be reviewed and updated beginning in FY2011.