House Legislative Analysis Section
Romney Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

EARMARK OIL AND GAS TAXES

House Bill 5983 as introduced
Sponsor: Rep. Allen Lowe

House Bill 5984 as introduced
Sponsor: Rep. Nancy Quarles

House Bill 5985 as introduced
Sponsor: Rep. William Bobier

First Analysis (9-23-98)
Committee: Forestry and Mineral Rights

THE APPARENT PROBLEM:

Currently, a tax referred to as the "severance tax", equal to 5 percent of the gross cash market value of gas production and 6.6 percent of the gross cash market value of oil production, is levied on oil and gas producers. Of the revenue received from the tax, at least $1,000, or 2 percent, is deposited into the Orphan Well Fund, and is used to plug abandoned or improperly closed oil or gas wells, for response activities or site restoration at wells when no owner can be found or for which the owners are insolvent, and for the Department of Environmental Quality's costs in administering these activities. The remainder -- generally, about $40 million each year -- is deposited into the state's general fund.

For many years, local communities have argued that they, too, should receive a portion of the revenues from the severance taxes collected from oil and gas wells located in their jurisdictions. While admitting that oil and gas production brings jobs to their areas, they point out that local units of government must also bear the heavy costs engendered by this industry. For example, rural roads, which are not, generally, class A roads, are damaged by heavy equipment and increased traffic; emergency management plans must be drawn up to control possible gas leaks and fires; county registers of deeds must hire additional employees to field questions regarding land titles; and oil and gas wells sometimes cause environmental damage, such as soil erosion. Some local communities report that they have had to borrow money to meet these costs. Consequently, legislation is proposed that would disburse some of the revenues from severance taxes to the local counties, cities, villages, and townships from which the oil or gas is removed.

THE CONTENT OF THE BILLS:

Currently, under Public Act 48 of 1929 (MCL 205.301 et al.), which regulates the severance tax that is imposed on oil and gas production, revenue received in severance taxes during each fiscal year is deposited as follows:

- At least $1,000, or two percent of the revenue received, is deposited into the Orphan Well Fund established under Part 616 of the Natural Resources and Environmental Protection Act (MCL 324.61601 et al.).

- The remaining revenue received during each fiscal year that is not allocated for that Orphan Well Fund is credited to the general fund, and must be made available for any purpose for which the general fund is currently made available

House Bill 5983 would amend Public Act 48 to require that 25 percent of the revenue received during each fiscal year be returned to the counties, cities, villages, and townships from which the oil or gas was removed.

House Bill 5984 would specify that a county, city, village, or township could only use the revenue for road improvement, public environmental projects, and the reclamation of contaminated or damaged land.

House Bill 5985 would specify that the county from which the oil or gas had been removed would receive 50 percent of the revenue, and the city, village, or township from which the oil or gas had been removed would receive the other 50 percent.

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that, beginning October 1, 1998, the bills would result in a decrease in state revenues amounting to approximately $9.2 million annually. (9-21-98)

ARGUMENTS:

For:

Although local communities gain from the higher employment that follows oil and gas development, they are also affected by costs incurred from damage to infrastructures, and from increased public services. In addition, oil and gas are "declining resources." While employment may be high for many years, employment in this industry eventually decreases as production slows down. As oil and gas wells approach the end of production, the revenues of local communities also decline. The provisions of the bill would provide a cushion to reduce the impact on local communities, and, in order to ensure that the revenues are used for this purpose, the bill would restrict expenditures to road improvement, public environmental projects, and the reclamation of contaminated or damaged land.

Against:

When the provisions of the bills were first proposed, it was intended that 50 percent, and not 25 percent, of the revenues from the severance tax on oil and gas production be disbursed to local communities. Some communities have calculated that this higher percent is needed to reimburse them for the cost of supporting heavy industrial development.

POSITIONS:

Representatives of the county boards of commissioners of the following counties testified before the House Forestry and Mineral Rights Committee in support of the bills:

• Montmorency County

• Alpena County

• Roscommon County

Representatives of the following organizations testified before the House committee in support of the bills:

• GOALIES (Gas, Oil and Land Impact Environment Statewide, an organization established to ensure that revenues be returned to the areas from which resources are extracted)

• The Michigan Townships Association

Analyst: R. Young