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SFA BILL ANALYSIS

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Senate Bills 135, 136 and 137 (as introduced 1-27-99)
Sponsor: Senator Walter H. North
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 11-8-99

CONTENT

The bills would amend Public Act 48 of 1929, which provides for an oil and gas severance tax, to dedicate 25% of severance tax revenue to the local units of government from which the oil or gas was removed, for specific purposes.

Senate Bill 135 would require that beginning October 1, 1999, 25% of the revenue received during each fiscal year be returned to counties, cities, villages, and townships from which the oil or gas was removed, as proposed in Senate Bills 136 and 137.

Senate Bill 136 would require that the revenue be used by a county, city, village, or township only for road improvements, public environmental projects, and reclamation of contaminated or damaged land.

Senate Bill 137 would require that the revenue be disbursed as follows: 50% to the county from which the oil or gas had been removed, and 50% to the city, village, or township from which the oil or gas had been removed.

(Public Act 48 of 1929 requires that all taxes, penalties, or costs paid to the State Treasurer under the Act be paid into the State Treasury and be credited as follows:

-- 2% of the revenue received during each fiscal year, but not less than $1 million must be credited to the Orphan Well Fund created in Part 616 of the Natural Resources and Environmental Protection Act. Whenever the Fund's unspent balance exceeds $3 million, further revenues cannot be credited to the Fund until the unspent balance becomes less than $3 million.
-- The remaining revenue received during each fiscal year that is not allocated to the Orphan Well Fund, must be credited to the General Fund and be available for any purpose for which the General Fund is made available by law.)

MCL 205. 314 (S.B. 135) Legislative Analyst: L. Arasim
Proposed MCL 205.314b (S.B. 136)
Proposed MCL 205.314a (S.B. 137)

FISCAL IMPACT

The fiscal impact of these bills on the State and local units of government would be three-fold:

First, the amount of money available to the State General Fund would be reduced. Senate Bill 135 would return 25% of oil and gas severance tax collections to the counties, cities, villages, and townships from which the oil or gas was removed.
The State currently levies a tax based on the gross cash market value of oil and gas severed. The tax rate on oil is 6.6%, gas 5%, and 4% on stripper wells and marginal properties. Consequently, as oil and gas prices fluctuate, so too do severance tax collections. Recent declines in commodity prices have dramatically affected State severance tax receipts. According to current estimates, the State will collect only $25.5 million in revenues from these sources in FY 1999-2000. This is $16.7 million less than the $42.2 million average collected annually between FY 1985-86 and FY 1996-97.

Under current law, not less than $1.0 million of FY 1999-2000 collections will be credited to the Orphan Well Fund, depending on the Fund's unexpended balance. That distribution would remain unchanged under these proposals. However, if Senate Bill 135 were approved, only $18,375,000 (75%) of the remaining $24.5 million would flow to the State's General Fund. The balance, $6,125,000 (25%) would be directed to local units of government for the purposes outlined in Senate Bill 136.

These bills would have a second fiscal impact: increased revenues for local units of government to use on specific projects. Again based on FY 1999-2000 oil and gas severance tax collections, Senate Bill 137 would provide $3,062,500 for the counties and $3,062,500 for the cities, villages, or townships from which the oil or gas had been removed. Oil and gas production in Michigan is concentrated in the northern Lower Peninsula. However, there is currently no way to determine how severance tax disbursements would be distributed among counties, cities, villages, or townships under these proposals.

The absence of reliable data to track severance tax collections results in the third fiscal impact on the State: an administrative cost to the Department of Treasury to develop a system that would track oil and gas severance tax payments based on the local unit of government from which the commodity was removed. For example, the State would have to distinguish payments from single producers with well-heads in different jurisdictions. The costs to develop and maintain this type of system cannot be determined. Finally, these bills do not specify who would be responsible to redistribute these collections, though there would likely be additional, indeterminate costs associated with this activity.

Fiscal Analyst: P. Alderfer

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