

Legislative Analysis



SEVERANCE TAX REVENUE: CULTURAL DESTINATIONS FUND

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House Bill 5280

Sponsor: Rep. Fran Amos

Committee: Appropriations

Complete to 11-21-05

A SUMMARY OF HOUSE BILL 5280 AS INTRODUCED 10-12-05

The Severance Tax Act (Public Act 48 of 1929) imposes a tax on the gross cash market value of oil and gas "severed" from oil and gas wells. Under the act, severance tax revenue is deposited into the General Fund, although the greater of \$1 million or two percent of all severance tax revenue is to be deposited into the Orphan Well Fund, an environmental cleanup fund used to remediate inappropriately abandoned oil and gas wells.

Under House Bill 5280, on an annual basis, the first \$50 million in severance tax revenue would be deposited into the General Fund, and any revenue collected in excess of \$50 million would be deposited into a newly created Cultural Destinations Fund and expended, upon appropriation, for state park operations and improvements, arts and cultural grants, and historical preservation grants. The Cultural Destinations Fund would be created within the state treasury and administered by the Department of History, Arts, and Libraries.

MCL 205.314

FISCAL IMPACT:

If revenue realized from the collection of severance taxes on produced oil and gas were restricted for the purposes indicated in the bill, General Fund/General Purpose Revenue would be reduced by as much as \$16 million. A portion would replace existing General Fund appropriations included in the FY 2005-2006 budget for the Department of History, Arts, and Libraries. This would be a funding shift of \$12 million for arts and cultural grants and for the Mackinac Island State Park Commission. This funding shift would reduce General Fund appropriations for the Department of History, Arts, and Libraries. If the bill were enacted, General Fund revenues would be reduced by \$4 million. Subject to appropriation, this \$4 million would be available for the Department of Natural Resources and the Michigan state park system.

The Orphan Well Fund receives up to two percent of severance tax revenue annually. If this revenue stream were eliminated, funding for this program would no longer flow into the fund. The appropriation from the Orphan Well Fund in FY 2005-2006 is \$2,029,600.

BACKGROUND INFORMATION:

General Fund support for Arts and Cultural Grants has been reduced steadily since the appropriation of \$29.5 million in FY 1994-95. The current appropriation for Arts and Cultural Grants is \$10,522,800. Additionally, General Fund support (\$9 million) for the state parks system was eliminated in FY 2004-2005. A dedicated revenue stream would insulate these two programs from the possible effects of future statewide General Fund reductions.

Fiscal Analyst: Kirk Lindquist

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