

Legislative Analysis



SEVERANCE TAX REVENUE: CULTURAL DESTINATIONS FUND

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5280 (Substitute H-2)
Sponsor: Rep. Fran Amos
Committee: Appropriations

Complete to 12-6-05

A SUMMARY OF HOUSE BILL 5280 (SUBSTITUTE H-2)

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 (H-2), the greater of \$1 million or two percent of severance tax revenue would continue to be deposited into the Orphan Well Fund. However, of the remaining balance, \$50 million would be credited to the General Fund as unrestricted revenue, with the balance amount being allocated to the newly created Cultural Destinations Fund. Money in the fund would be 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 this bill, a restricted fund, created by this bill, would be available to support programs traditionally supported by the State General Fund. Currently, \$12.0 million is appropriated to the Department of History, Arts and Libraries for arts and cultural grants, and the Mackinac Island State Park Commission. If annual revenue is as much as \$65.0 million, an additional \$3.0 million would be available for the Michigan State Park System, Department of Natural Resources. It should be noted, however, that \$66.7 million was collected in FY 2004-05, and the revenue estimate for FY 2005-06 is \$60,000,000. If this \$9.0 million is appropriated for arts and park programs, General Fund reductions in other program areas may be necessary.

BACKGROUND INFORMATION:

General Fund support for Arts and Cultural Grants has been reduced, steadily since the appropriation of \$27.0 million in FY 2001-02. The current year appropriation for Arts and Cultural Grants is \$10,522,800 (FY 2005-06). General Fund support (\$9.0 million) for the State Parks System was eliminated in FY 2004-05. A dedicated revenue stream would insulate these two programs from future statewide General Fund reductions.

Fiscal Analyst: Kirk Lindquist

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.