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BILL ANALYSIS

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Senate Bill 784 (Substitute S-3 as reported by the Committee of the Whole)
Sponsor: Senator Loren Bennett
Committee: Natural Resources and Environmental Affairs

CONTENT

The bill would amend the Natural Resources and Environmental Protection Act to allow the Department of Natural Resources (DNR) to enter into contracts for the sale of the economic share of royalty interests it holds in hydrocarbons produced from Devonian or Antrim shale qualifying for the nonconventional fuel credit contained in Section 29 of the Internal Revenue Code. The DNR would have to assure that revenue to the Natural Resources Trust Fund (NRTF) under these contracts would not be less than the revenue the Fund would have received if the contracts were not entered into. The sale could occur under contractual terms and conditions considered appropriate by the DNR and as approved by the State Administrative Board. Funds received from the sale would have to be transmitted to the State Treasurer for deposit as follows:

-- Net proceeds allocable to the nonconventional fuel credit would have to be credited to the "Revitalization Revolving Loan Fund"; if this Fund were not established within 12 months after the bill's effective date, the proceeds would have to be credited to the Environmental Response Fund. ("Net proceeds" would mean the total receipts received from the sale of royalty interests under these provisions less costs related to the sale, including legal, financial advisory, geological or reserve studies, and accounting services.)
-- Proceeds related to the production of oil or gas from Devonian or Antrim share would have to be credited to the NRTF, or other applicable fund as provided by law.

The bill is tie-barred to Senate Bill 785, which would exempt proceeds received by the State from this sale from the NRTF, and Senate Bill 786, which would exempt income received from these hydrocarbons from the severance tax.

MCL 324.503 Legislative Analyst: S. Margules

FISCAL IMPACT

According to the Department of Management and Budget, the bills could generate as much as $6 million annually in additional revenue over the next seven years, for a total of $42 million. The availability of this revenue would be contingent upon a favorable ruling by the Internal Revenue Service prior to the sale of any royalty interests.

The above estimate assumes that the amount of oil production that would qualify for this program (based on Section 29 of the Internal Revenue Code) is approximately 6 trillion BTUs, with the tax credit at $1 per million BTU. It also assumes that all the State's "economic shares in the royalty interests allocable to the nonconventional fuel credit" would be sold at current market prices.

The bills would exempt participants in the program from paying severance tax. Using the conversion of 1.01 million BTU per MCF (thousand cubic feet), the amount under consideration is worth approximately $10 million. Without the exemption, this would generate approximately $500,000 in severance tax revenue, for deposit to the General Fund.

The State could incur additional costs under the bills for administration of the sale of the royalties, or contracting with a third party to handle the transactions. This would reduce net available revenues, as would any discounts or changes in market prices.

Date Completed: 12-7-95 Fiscal Analyst: G. Cutler

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