Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 784, 785, and 786
Sponsor: Senator Loren Bennett (S.B. 784)
Senator George A. McManus, Jr. (S.B. 785)
Senator Joanne G. Emmons (S.B. 786)
Committee: Natural Resources and Environmental Affairs

Date Completed: 12-5-95

SUMMARY OF SENATE BILLS 784, 785, and 786 as introduced 11-30-95:

Senate Bills 784 and 785 would amend the Natural Resources and Environmental Protection Act to allow the Department of Natural Resources (DNR) to sell the economic share of royalty interests it holds in certain hydrocarbons and to exempt the revenue from the sale from the Michigan Natural Resources Trust Fund. Senate Bill 786 would amend Public Act 48 of 1929, which provides for a severance tax on oil and gas extraction, to exempt from the tax income received by oil and gas producers from certain hydrocarbons purchased from the State.

The bills are tie-barred to each other.

Following is a more detailed description of the bills.

Senate Bill 784

The bill would allow the Department of Natural Resources to enter into contracts for the sale of the economic share of royalty interests it holds in hydrocarbons produced from Devonian or Antrim shale allocable to the nonconventional fuel credit contained in the Federal Internal Revenue Code. The sale of the economic share of royalty interests 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 into the Orphan Share Fund.

Currently, the Act prohibits the DNR from selling a mineral or nonmetallic mineral right if the sale would violate Part 353 (sand dune protection and management) of the Act or any other provision of law. In addition, the bill specifies that the DNR could not sell the mineral or right if the sale would violate Part 637 (sand dune mining) of the Act.

Senate Bill 785

The bill would exempt from the Michigan Natural Resources Trust Fund money received by the State from the sale of its economic share of royalty interests in hydrocarbons derived from Devonian or Antrim shale and allocable to the nonconventional fuel credit contained in the Internal Revenue Code. (The Trust Fund consists of all bonuses, rentals, delayed rentals, and royalties collected or reserved by the State under provisions of leases for the extraction of nonrenewable resources from State-owned lands, with certain exceptions as specified in the Act.)

Senate Bill 786

The bill specifies that a producer who extracted oil or gas from the soil would not be required to pay a severance tax on income received from the hydrocarbons produced from Devonian or Antrim shale qualifying for the nonconventional fuel credit contained in the Internal Revenue Code and acquired under a royalty interest sold by the State.

MCL 324.503 (S.B. 784)
324.1902 (S.B. 785)
205.303 (S.B. 786)

Legislative Analyst: L. Burghardt

FISCAL IMPACT

According to the Department of Management and Budget, the bills could generate as much as $6 million annually in additional revenue to be deposited in the Orphan Share Fund over the next seven years, for a total of $42 million. The 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 bill 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 $525,000 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.

Fiscal Analyst: G. Cutler

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