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House Bill 4526 with committee amendments
First Analysis (5-11-87)

Sponsor: Rep. Charlie Harrison, Jr.
Committee: Appropriations

THE APPARENT PROBLEM:

The Michigan Oil and Gas Act allows the Department of Treasury to assess a fee on oil and gas produced in Michigan equal to up to one percent of the value of oil and gas. This fee revenue provides the resources for the Department of Natural Resources (DNR) to carry out the monitoring and enforcement requirements of the act. The current procedure provided in the act requires the Department of Treasury to review the amount of revenue appropriated by the legislature and determine an assessment fee rate at a level which will cover the statewide appropriation. The amount appropriated, divided by the gross cash market value of oil and gas produced in the state for the preceding fiscal year, determines the percentage rate (to the nearest one-tenth of one percent) of the assessment fee on oil and gas production that will be used for the next year, until a different fee is determined.

The current procedure for determining fees works fairly well as long as oil and gas production and prices remain relatively constant or are increasing. However, when production or price drop, this formula results in a shortfall between actual revenues collected and the appropriation. The assessment fee for the current fiscal year is five-tenths of one percent; and total appropriations from this revenue source for the current fiscal year are $6,138,500. Oil prices, however, fell during the current fiscal year, from $23 per barrel to $17 per barrel. This has resulted in a projected $1.8 million shortfall in this revenue source.

THE CONTENT OF THE BILL:

The bill would require the Department of Treasury to make an interim assessment rate adjustment to seven-tenths of one percent, effective April 1, 1987 through August 31, 1987. Further, it would change the procedure for establishing the assessment rate. At present the Department of Treasury uses the actual value of oil and gas produced during the preceding fiscal year; in the future it would use an estimate (provided by the Department of Natural Resources) of the total production and value of oil and gas expected to be produced in the current fiscal year. The bill would also change the determination of the assessment rate from the nearest one-tenth of one percent to the nearest one-hundredth of one percent.

MCL 319.22

FISCAL IMPLICATIONS:

The bill would provide an interim adjustment to the surveillance fee on oil and gas production in the state. According to the House Fiscal Agency, the interim fee would generate approximately $700,000 in additional revenues from the period April 1, 1987, through August 31, 1987. This will leave an approximate $1.1 million shortfall, to be made up from program savings. (4-23-87)

ARGUMENTS:

For:

The bill would allow the state to collect approximately $700,000 in additional surveillance fees. The remaining $1.1 million dollar shortfall would be made up by reductions in expenditures by Department of Natural Resources divisions who receive appropriations from the oil and gas surveillance fee. Additional savings would be generated by other departments (Attorney General and Civil Service) who are also appropriated funds from the surveillance fee. Although the interim adjustment will not generate enough revenue to off-set all the projected shortfall, the $700,000 would have a substantial impact on the department's ability to maintain an adequate oil and gas regulatory program.

The bill would also establish a new method for the determination of the surveillance fee rate. The new procedure would utilize an estimate of the oil and gas that will be produced in the existing fiscal year. This would provide a more accurate method for determining the percentage rate and would generate revenues that will be representative of legislative appropriations, by reducing the probability of a major shortfall or windfall in fee revenues due to major fluctuations in the value or production of oil and gas.

Against:

The oil and gas industry is currently experiencing severe financial difficulty due to the drop in oil prices, precipitated by the flood of cheap oil from the Middle East. When oil prices dropped to $10.50 per barrel in August 1986 a number of the marginal oil and gas wells (stripper wells) were plugged and abandoned because they could no longer operate economically. Oil is now at $17.00 per barrel, but this is still precariously close to the point where the stripper well operator must decide whether to plug and abandon or continue to produce. The interim adjustment to the surveillance fee will be an added cost to the industry, and the stripper well operator in particular. It will have to be considered in his or her decision to plug and abandon or to continue to operate.

Response: The interim fee will add approximately two and one-half cents per barrel to the price of oil and should have minimal impact on the industry as a whole.

POSITIONS:

The Department of Natural Resources supports the bill. (5-8-87)

The Michigan Oil and Gas Association supports the bill. (5-11-87)

The Michigan Department of Treasury supports the bill. (5-11-87)