



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES
LANSING



RODNEY A. STOKES
DIRECTOR

February 13, 2012

To: Rodney A. Stokes, Director

Information: Natural Resources Commission

Transaction: Mineral Audit Program Fees - For Information Only

Authority: Part 5, Department of Natural Resources, Section 502, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), authorizes the Director of the Department of Natural Resources (DNR) to enter into contracts for mineral extraction.

Discussion: The State of Michigan owns 4.1 million acres of combined surface and mineral rights, and an additional 2.3 million acres of mineral rights only. Under the provisions of 1994 PA 451, the Natural Resources Commission (NRC) and Director of the DNR are responsible for managing these lands and mineral resources to ensure protection and enhancement of the public trust.

In 1997, the DNR established an audit program to examine lessee royalty payments and post-production cost deductions to assess whether the State of Michigan was receiving its proper economic share under the terms of the lease. A fee was established to cover the cost of the audit program, including the hiring of independent contractors who would review the lessees' records and report their findings to the DNR.

The fee is derived from lessees paying \$3 per acre (Audit Fee) in addition to the minimum bonus, which is currently \$10 per acre.

The Audit Fee directly correlates to the number of acres leased. During the first 10 years, the amount collected from leases issued at the minimum bonus bid per acre (\$10 plus \$3 Audit Fee) totaled nearly \$1,232,000. During this same period of time, program costs were just under \$2,548,000.

Over the past 5 years, the number of acres leased has increased substantially resulting in about \$1,787,000 in Audit Fees collected. At the same time, the cost of the program decreased to \$631,000.

The recent increase in Audit Fee collection is primarily related to 3 auctions that leased in excess of 150,000 acres each. The cost of the program decreased for various reasons, including:

Competitive bidding for audit contracts,
More knowledgeable contractors,
Most settlements being reached without the need for litigation, and

Fewer contracts issued while staff provided assistance to another program.

The DNR believes that these large auctions can not be consistently sustained. However the DNR also recognizes that program costs are expected to be maintained at or near their current level into the foreseeable future. Therefore, staff is recommending that the Audit Fee be reduced, by one-third, from \$3 per acre to \$2 per acre.

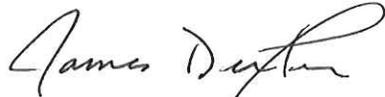
Staff reviewed the audit program and proposed reduction in the Audit Fee with representatives of the Michigan United Conservation Clubs (MUCC) and Michigan Oil and Gas Association (MOGA). MOGA would prefer to eliminate or find another source of funding. Action now will allow the reduced fee to be effective for the next auction scheduled for May 8, 2012.

Notice: This item will appear on the February 27, 2012 DNR Business Calendar as information only. It will be published again on the March 26, 2012 calendar and will be eligible for approval on April 5, 2012.

Recommendation: Proceed with submitting the Audit Fee proposal to the NRC for action at their April 5, 2012 meeting. Upon approval of the Director, the Audit Fee will be reduced to \$2 per acre in additional bonus with an effective date of May 1, 2012.



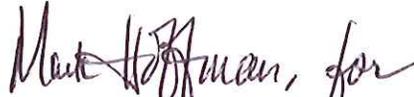
William O'Neill, Acting Chief
Forest Resources Division



James L. Dexter, Acting Chief
Fisheries Division



Russ Mason, Ph.D., Chief
Wildlife Division



Kelley D. Smith, Ph.D.
Acting Natural Resources Deputy

I approve the staff recommendation.

Rodney A. Stokes
Director

Approval Date