

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 13-0755
Prime Sponsor(s): Sen. Lundberg
 Rep. DelGrosso

Date: February 8, 2013
Bill Status: Senate SVMA
Fiscal Analyst: Marc Carey (303-866-4102)

TITLE: CONCERNING THE ALLOCATION OF STATE SEVERANCE TAX GROSS RECEIPTS.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue		
State Diversions*		
Diversion from the		\$0
Severance Tax Trust Fund - Operational Account		(12.9 million)
Small Comm. Water & Wastewater Grant Fund		9.1 million
Local Government Severance Tax Fund		(25.9 million)
State Rainy Day Fund		9.9 million
Property Tax Relief Fund		9.9 million
Highway Users Tax Fund		9.9 million
State Expenditures		\$0
Severance Tax Trust Fund - Operational Account		(12.9) million
Small Comm. Water & Wastewater Grant Fund		9.1 million
Local Government Severance Tax Fund		(25.9 million)
Property Tax Relief Fund		9.9 million
Highway Users Tax Fund		9.9 million
FTE Position Change		
Effective Date: July 1, 2014, unless a referendum petition is filed in which case it must be approved by a vote of the people in the November 2014 general election.		
Appropriation Summary for FY 2013-2014: None required.		
Local Government Impact: See Local Government Impact section.		

**Based on the December 2012 Legislative Council Severance Tax revenue forecast.*

Summary of Legislation

This bill alters the allocation of severance tax revenue collected by the state. Currently, the first \$1.5 million in gross receipts are credited to the Innovative Energy Fund. All remaining gross receipts are divided equally between the Severance Tax Trust Fund (STTF) and the Local Government Severance Tax Fund (LGSTF).

The bill would allocate severance tax revenue as follows:

- the Innovative Energy Fund would continue to receive \$1.5 million annually, but only through FY 2014-15;
- the next \$100 million would be divided equally between the STTF and the LGSTF;
- 50 percent of remaining collections would also be divided equally between the STTF and the LGSTF;
- the other 50 percent (up to \$60 million) would be credited to the Perpetual Base Account of the STTF. The first \$50 million would stay in the Perpetual Base Account and anything over up to \$10 million would go to the Small Communities Water and Wastewater Grant Fund; and
- any remaining money over the \$60 million would be divided equally between the newly created State Rainy Day Fund, the newly created Property Tax Relief Fund, and the Highway Users Tax Fund.

Background

Severance Tax Trust Fund. Money credited to the STTF is divided equally between the Operational Account which funds regulatory agencies within the Department of Natural Resources (DNR) and a variety of tier 2 programs, and the Perpetual Base Account which provides money for water projects.

The Operational Account of the Severance Tax Trust Fund receives 25 percent of severance tax receipts. Money in the account is divided into two tiers. Tier 1 money is used to fund core programs, including staffing and operating costs, for six divisions within the Department of Natural Resources: the Oil and Gas Conservation Commission; the Division of Reclamation, Mining, and Safety; the Geological Survey; the Water Conservation Board; and the Division of Parks and Wildlife. Tier 2 money is spent on a variety of programs, including the Low-Income Energy Assistance program (LEAP), the Water Supply Reserve Account program, species conservation, forestry grants to address bark beetle infestation and other forest health problems, the Water Efficiency Grant program, and several smaller agricultural programs.

Current law provides a mechanism for balancing spending from the Operational Account by making reductions to the account's Tier 2 programs when insufficient funds exist to fully fund the programs and the account's reserve. The reductions to Tier 2 programs are made on a proportional basis. For example, if the funding for Tier 2 programs needs to be reduced by 10 percent to ensure the Operational Account is balanced, each Tier 2 program's funding level is reduced by 10 percent.

Current law also requires the Operational Account to maintain a reserve equal to 100 percent of the current year's Tier 1 appropriations and an additional reserve equal to 15 percent of the current year's Tier 2 appropriations. Money may be transferred from the reserve to offset temporary reductions in funding for Tier 1 or Tier 2 programs.

Local Government Severance Tax Fund. Money credited to the LGSTF is distributed to local governments by the Department of Local Affairs (DOLA) through energy impact grants (70 percent) and direct distributions (30 percent).

State Diversions

Cash Funds. This bill would have an impact on a number of cash funds as it will change the way severance tax revenue is allocated. Table 1 below shows the estimated changes, based on the December 2012 Legislative Council Staff severance tax revenue forecast of \$205.1 million in non-interest severance tax revenue. The changes would first occur in FY 2014-15.

Table 1. Diversions Occurring Under SB 13-135 in FY 2014-15 (Millions of Dollars)			
Cash Funds	Current Law	Under SB 13-135	Diversion
Innovative Energy Fund	\$1.5	\$1.5	\$0
Severance Tax Trust Fund - Operational Account	\$50.9	\$38.0	(\$12.9)
Severance Tax Trust Fund Perpetual Base Account	\$50.0	\$50	\$0
Small Communities Water and Wastewater Grant Fund	\$0.9	\$10.0	\$9.1
Local Government Severance Tax Fund	\$101.8	\$75.9	(\$25.9)
State Rainy Day Fund*	\$0	\$9.9	\$9.9
Property Tax Relief Fund*	\$0	\$9.9	\$9.9
Highway Users Tax Fund**	\$0	\$9.9	\$9.9
Total	\$205.1	\$205.1	\$0

* Fund created by Senate Bill 13-135.

** Fund receiving severance tax revenue for first time under Senate Bill 13-135

Operational Account Proportionate Reductions. Current law requires proportional reductions in the funding of Tier 2 programs when insufficient funds exist to fully fund the programs. Based on the December 2012 Legislative Council staff severance tax revenue forecast, the change in severance tax allocation contained in this bill will result in insufficient funds to fully fund all of the Operational Account's Tier 2 programs in FY 2014-15. The actual transfer from the account resulting from the passage of SB 13-135 is projected to be 25 percent less than the authorized amount.

State Expenditures

Severance Tax Trust Fund. This bill reduces expenditures from the STTF by \$12.9 million in FY 2014-15. All of this reduction occurs within the Operational Account, which funds Tier 1 regulatory agencies and various Tier 2 programs housed within the Department of Natural Resources. The Perpetual Base Account, which provides funding for water projects, is projected to be held harmless in FY 2014-15.

Under current law there is projected to be enough revenue in the Operational Account to fully fund all Tier 1 and Tier 2 programs and end FY 2014-15 with \$347,316 above the reserve requirements for the Operational Account. The reallocation of severance tax revenue contained in this bill reduces expenditures for all Tier 2 programs funded from the Operational Account of the Severance Tax Trust Fund by \$7.8 million in FY 2014-15. (Reductions are minimized through the use of \$5.1 million in reserve funds.) Table 2 details the projected expenditure reductions from the Operational Account resulting from passage of SB 13-135 based on the December 2012 Legislative Council revenue forecast and use of reserve funds.

Table 2. Reduced Operational Account Expenditures Under SB 13-135	
Transfer Impact	FY 2014-15
Low-Income Energy Assistance	(\$3,208,291)
Water Supply Reserve Account	(2,468,344)
Conservation District Grant Fund	(111,075)
Water Efficiency Grants Program Cash Fund	(135,759)
Agricultural Value Added Cash Fund	(123,417)
Interbasin Compact Comm. Operations	(183,908)
Forestry Grants	(617,086)
Aquatic Invasive Species	(988,820)
TOTAL	(\$7,836,701)

Small Communities Water and Wastewater Grant Fund. The bill increase expenditures from the Small Communities Water and Wastewater Grant Fund by \$9.1 million in FY 2014-15.

Local Government Severance Tax Fund. The bill reduces expenditures from the LGSTF by \$25.9 million in FY 2014-15. Money in this fund is distributed to local governments through energy impact grants (70 percent) and direct distributions (30 percent). Based on the December 2012 Legislative Council Staff forecast, the bill will reduce money distributed through energy impact grants by \$18.1 million and direct distributions by \$7.8 million in FY 2014-15.

State Rainy Day Fund. The bill creates State Rainy Day Fund, and authorizes the General Assembly to appropriate or transfer money from the fund by enacting a bill approved by two-thirds of its members. This fiscal note assumes that money credited to the fund would not be expended in FY 2014-15.

Property Tax Relief Fund. The bill creates the Property Tax Relief Fund, and authorizes the General Assembly to appropriate or transfer money from the fund to reduce property taxes. The bill is silent on how this is to be accomplished. This fiscal note assumes that the \$9.9 million credited to the fund will be distributed to local governments to offset a reduction of a like amount in property tax revenue in FY 2014-15. In order to receive this money, the local government would first have to pass a mill levy reduction designed to reduce property tax revenue.

Highway Users Tax Fund. Severance tax revenue credited to this fund is to be allocated and spent in accordance with the existing statutory formula. The bill will increase expenditures from this fund by \$9.9 million in FY 2014-15.

Local Government Impact

The bill will decrease funds distributed to local governments through direct distributions and energy impact assistance grants by an estimated \$25.9 million in FY 2014-15. This money is distributed 70 percent through grants and loans and 30 percent through direct distributions and the cuts for these two programs would be proportional.

This bill will increase grant moneys to local governments by \$9.1 million in FY 2014-15 from the Small Communities Water and Wastewater Grant Fund. The grant program is administered by the Department of Public Health and Environment.

Local governments will receive an estimated \$9.9 million in FY 2014-15 from the property tax relief fund in order to offset a reduction in property tax revenue. This fiscal note assumes that in order to receive this money, the local government would first have to pass a mill levy reduction designed to reduce property tax revenue.

Finally, the bill will increase distributions to local governments from the Highway Users Tax Fund by \$9.9 million in FY 2014-15.

Departments Contacted

Local Affairs

Natural Resources