

**Initiative #120
Use of Severance Tax Revenue for Highways**

1 **Amendment (?) proposes amending the Colorado Constitution to:**

- 2 ♦ require the state legislature to spend a portion of state severance tax collections
3 on highway projects.

4 **Summary and Analysis**

5 ***What is the severance tax?*** Companies that extract nonrenewable natural
6 resources such as coal, oil, natural gas, and metallic minerals from the earth pay the
7 state severance tax. The amount of severance tax paid is based on gross income or
8 production volume.

9 ***How is severance tax revenue spent now?*** The state legislature currently
10 determines how severance tax revenue is spent. Under existing statutes, it is evenly
11 divided between state programs and local governments. The state portion is spent on
12 state water projects and for programs related to mineral extraction, clean energy
13 development, low-income energy assistance, and species conservation. The local
14 government portion is distributed through competitive loans or grants to local
15 governments that are impacted by the mineral extraction industry, or paid directly to
16 them based on mining activity in the area.

17 ***How does Amendment (?) change current law?*** Under Amendment (?), the
18 50-50 split for state programs and local governments is placed in the state
19 constitution. The state legislature continues to have the ability to pass laws to spend
20 the local government portion any way it chooses. Of the 50 percent set aside for the
21 state, Amendment (?) limits the amount that the state legislature can spend, at its
22 discretion, on state programs. Severance tax revenue for state programs is capped at
23 the greater of:

- 24 • the prior year's amount plus inflation; or
25 • the highest amount spent on state programs after the 2008 budget year.

26 The remaining amount of the state portion must be used to construct and maintain
27 highways, with priority given to relieving congestion on Interstate-70 (I-70). The state
28 legislature is responsible for budgeting this money.

29 Table 1 illustrates projected changes to the allocation of severance tax moneys
30 under Amendment (?). For example, in 2009, existing state programs receive
31 \$165 million under current law. Under Amendment (?), these programs receive
32 \$78 million, and \$87 million is reallocated to highway projects aimed at relieving
33 congestion on I-70.

1 **Table 1**
 2 **Projected Change in Severance Tax Allocation in Millions of Dollars**

	2009	2010	2011	2012	Four-Year Total
3 Projected Annual Severance Tax 4 Revenue	\$331	\$230	\$261	\$272	\$1,094
5 State Program Money 6 under Current Law	\$165	\$115	\$131	\$136	\$547
7 Amount for State Programs 8 under Amendment (?)*	\$78	\$81	\$84	\$87	\$547
9 Shift from State Programs to 10 Transportation Projects 11 Under Amendment (?)	\$87	\$34	\$47	\$50	\$1,094

12 *Source: Legislative Council Staff June 2008 Revenue Forecast*

13 ** Based on a projected annual inflation rate that varies between 2.2 and 3.5 percent.*

14 **How are transportation projects currently funded?** Fuel taxes, vehicle
 15 registration fees, a portion of the state sales and use tax, and federal highway funds
 16 finance transportation projects in Colorado. The state collected a little over
 17 \$500 million from state fuel taxes in the last budget year.

18 **Arguments For**

19 1) Amendment (?) provides new money to meet highway needs without raising
 20 taxes. The most recent statewide transportation plan projects significant financing
 21 shortfalls to maintain the current highway system. These shortfalls have occurred in
 22 part because increased vehicle fuel efficiency and higher road construction costs have
 23 decreased the purchasing power of gasoline taxes, which are the system's primary
 24 funding source. This measure will provide \$217 million over the next four years for
 25 highways.

26 2) Amendment (?) provides funding to relieve congestion on a very important
 27 Colorado highway. I-70 is critical for meeting the transportation needs of both
 28 Colorado residents and visitors to the state. The highway supports both intra and
 29 interstate commerce, provides access to key ski and recreational areas, and is an
 30 important commuter route. However, funding has not kept pace with construction and
 31 maintenance costs. A new funding source is critical for improving this key
 32 transportation corridor.

1 3) The recent growth in oil and gas production has resulted in severance tax
2 revenue that far exceeds the funding requirements of state programs it has
3 traditionally supported. The state's share of severance tax revenue grew from
4 \$8 million to over \$100 million in the past few years, and the new money has funded a
5 wide variety of additional programs. Amendment (?) refocuses a portion of this money
6 on the critical transportation problem facing the state, while allowing money for the
7 traditional state programs to grow by inflation and protecting money that goes to local
8 governments impacted by the energy industry.

9 4) By amending the Colorado Constitution, Amendment (?) creates a dedicated
10 revenue source for transportation projects that cannot be spent for other uses without
11 another vote of the people.

12 **Arguments Against**

13 1) Amendment (?) circumvents the statewide transportation planning process,
14 which may produce wasteful and inefficient spending. The statewide transportation
15 plan identifies, prioritizes, and selects transportation projects for funding over the next
16 20 years. When legislators prioritize and select transportation projects, political
17 considerations may enter the decision-making process.

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19 2) The measure undermines funding for critical state programs, such as
20 low-income energy assistance, species conservation, clean energy, and water
21 infrastructure. In the past several years, the increase in severance tax revenue has
22 been used as a funding source for these programs. Capping the amount of
23 severance taxes that may be used for these programs may result in cuts to these
24 programs as early as this year or place additional pressure on other programs in the
25 state budget.

26 3) Historically, severance taxes have been used to pay for programs that relate to
27 the mineral industry, such as programs that regulate or relate to mineral extraction
28 activities or finance water projects. This measure partially severs this relationship by
29 diverting revenue for statewide transportation projects that are unrelated to the mineral
30 industry.

31 4) By amending the constitution, this measure makes future budget allocation
32 decisions much more difficult. If the state's economy encounters another recession
33 that leads to substantial reductions in tax revenue, policymakers would be limited in
34 the amount of severance taxes that could be used to support programs such as public
35 education and public safety.

36 **Estimate of Fiscal Impact**