Initiative #120 Use of Severance Tax Revenue for Highways

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

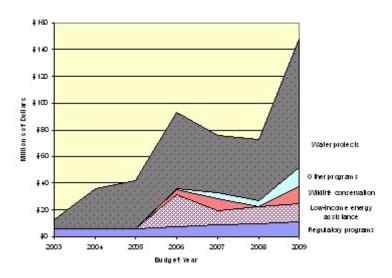
 require the state legislature to spend a portion of state severance tax collections on highway projects

Summary and Analysis

What is the severance tax? Companies that extract nonrenewable natural resources such as coal, oil, natural gas, gold, and silver from the earth pay the state severance tax. The amount of severance tax paid is based on company income or the volume of the resource mined.

How is severance tax revenue spent now? The state legislature determines how severance tax revenue is spent. Under existing statutes, it is evenly divided between local governments and state programs. State statute distributes the local government portion to communities impacted by the mineral extraction industry — either directly based on mining activity in the area or through competitive loans or grants. The state portion is spent on state water projects, programs regulating mining activity, and, in recent years, programs like low-income energy assistance and wildlife conservation. Figure 1 shows the amount of severance taxes spent on different state programs over the past six years and the amount budgeted for 2009.

Figure 1. Severance Taxes Spent on State Programs





How does Amendment (?) change current law? Under Amendment (?), the 50-50 split for local governments and state programs is placed in the state constitution. The state legislature continues to have the ability to pass laws to distribute the local government portion any way it chooses.

Of the 50 percent set aside for the state, Amendment (?) limits the amount that the state legislature can spend on programs to the prior year's amount plus inflation. The remaining amount of the state portion must be used to construct and maintain highways, with priority given to relieving congestion on Interstate-70 (I-70). The state legislature is responsible for budgeting the highway money, and it may pass laws to spend the program money any way it chooses. Amendment (?) also protects against decreases in money for state programs if severance tax collections decrease.

What is the projected change in spending under Amendment (?). Table 1 shows the projected shift in spending from state programs to highway projects under Amendment (?). For example, in 2009, state programs receive \$165 million under current law. Under Amendment (?), these programs receive \$78 million, and \$87 million is shifted to highway projects aimed at relieving congestion on I-70.

Table 1. Projected Change in State Portion of Severance Tax Spending in Millions of Dollars

	2009	2010	2011	2012	Four-Year Total
Projected Total Severance Tax Revenue	\$331	\$230	\$261	\$272	\$1,094
State Program Money under Current Law	\$165	\$115	\$131	\$136	\$547
Amount for State Programs under Amendment (?)*	\$78	\$81	\$84	\$86	\$329
Shift from State Programs to Highway Projects under Amendment (?)	\$87	\$34	\$47	\$50	\$218

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

How are transportation projects currently funded? Fuel taxes, vehicle registration fees, a portion of income and sales taxes, and federal highway money finance transportation projects in Colorado. The state received about \$1.2 billion for transportation projects in budget year 2008, with fuel taxes and vehicle registration fees at \$415 million, federal funds at \$408 million, and income and sales taxes at \$426 million.

Arguments For

- 1) Amendment (?) increases funding for highways by \$218 million over the next four years without raising taxes. The most recent statewide transportation plan projects significant financing shortfalls to maintain the current highway system. These shortfalls have occurred in part because increased vehicle fuel efficiency and higher road construction costs have decreased the purchasing power of gasoline taxes, which are one of the system's primary funding sources. By amending the state constitution, Amendment (?) creates a new, dedicated source of money for highways that cannot be changed without another vote of the people.
- 2) Amendment (?) provides money to relieve congestion on an important Colorado highway. I-70 meets the transportation needs of both Colorado residents and visitors to the state. The highway supports both intra and interstate commerce, provides access to key ski and recreational areas, and is an important commuter route. However, funding for construction and maintenance has not kept pace with increased use of the highway. A new source of money is vital for improving this key transportation corridor.
- 3) The recent growth in oil and gas production has resulted in severance tax revenue that far exceeds the funding requirements of the state programs it has traditionally supported. The money available for state programs has grown from \$8 million to over \$100 million in the past few years, and is expected to continue to grow. Amendment (?) refocuses a portion of this money on transportation problems facing the state, while allowing money for state programs to grow by inflation.

Arguments Against

- 1) Amendment (?) diverts money that is needed to meet Colorado's rapidly growing water demand and to maintain its aging water supply system. Half of the money shifted to highway projects under this measure would be available under current law to provide loans and grants for water projects. A recent study indicated that current and planned water supply projects will meet only 80 percent of the estimated need by 2030. By diverting over \$100 million in the next four years to transportation projects, Amendment (?) hurts the state's ability to meet long-term water supply needs.
- 2) By prioritizing I-70 and giving the legislature budget authority over the new highway money, Amendment (?) circumvents the statewide transportation planning process. The statewide transportation plan, developed by an independent commission, identifies, prioritizes, and selects transportation projects for funding. When legislators prioritize and select transportation projects, political considerations may enter the decision-making process.
- 3) Amendment (?) limits the flexibility of the legislature to prioritize and pay for all state programs. In recent years, programs such as low-income energy assistance, wildlife conservation, and water infrastructure have benefitted from increased state severance tax collections. By amending the state constitution, Amendment (?)



- 1 eliminates the ability of the legislature to determine which state programs are most
- 2 important. Further, it may result in cuts to programs funded by the severance tax as
- 3 early as this year or place pressure on other programs in the state budget.

4 Estimate of Fiscal Impact

State Impacts. Amendment (?) does not increase state severance tax revenue. Instead, it caps the amount of severance tax revenue that can be allocated by the state legislature and diverts money above the cap to highway projects. Based on the current state forecast of severance tax revenue, Amendment (?) reduces the money available for existing state programs by \$87 million in the current budget year, and \$218 million over the next four years, as indicated in Table 1.

Some of the money shifted to transportation has been budgeted in the current year. Table 2 shows the reduction in spending that is expected to occur for state water projects and existing programs due to Amendment (?). In budget year 2009, state programs will see a total reduction of \$1.4 million.

Table 2. Estimated State Spending Reductions Due to Amendment (?)

State Program:	2009 Budgeted	Estimated Reduction
Water programs and projects	\$13,400,000	-\$390,000
Wildlife conservation	\$12,500,000	-\$360,000
Low-income energy assistance	\$13,000,000	-\$370,000
Forestry grants for bark beetle control	\$1,000,000	-\$30,000
Aquatic invasive species control	\$6,000,000	-\$170,000
Other	\$4,000,000	-\$110,000
TOTAL	\$49,900,000	-\$1,430,000