

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

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

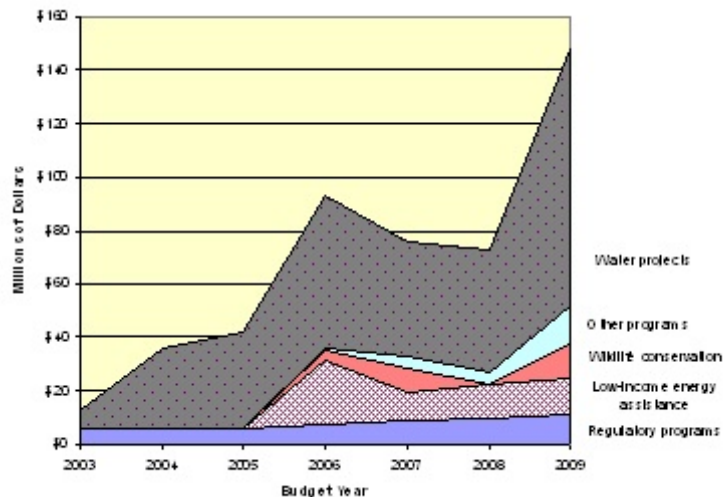
- 2 ♦ require the state legislature to spend a portion of state severance tax
3 collections on highway projects

4 **Summary and Analysis**

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

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

18 **Figure 1. Severance Taxes Spent on State Programs**



1 **Arguments For**

2 1) Amendment (?) increases funding for highways by \$218 million over the next
3 four years without raising taxes. The most recent statewide transportation plan projects
4 significant financing shortfalls to maintain the current highway system. These shortfalls
5 have occurred in part because increased vehicle fuel efficiency and higher road
6 construction costs have decreased the purchasing power of gasoline taxes, which are
7 one of the system's primary funding sources. By amending the state constitution,
8 Amendment (?) creates a new, dedicated source of money for highways that cannot be
9 changed without another vote of the people.

10 2) Amendment (?) provides money to relieve congestion on an important Colorado
11 highway. I-70 meets the transportation needs of both Colorado residents and visitors to
12 the state. The highway supports both intra and interstate commerce, provides access to
13 key ski and recreational areas, and is an important commuter route. However, funding
14 for construction and maintenance has not kept pace with increased use of the highway.
15 A new source of money is vital for improving this key transportation corridor.

16 3) The recent growth in oil and gas production has resulted in severance tax
17 revenue that far exceeds the funding requirements of the state programs it has
18 traditionally supported. The money available for state programs has grown from
19 \$8 million to over \$100 million in the past few years, and is expected to continue to
20 grow. Amendment (?) refocuses a portion of this money on transportation problems
21 facing the state, while allowing money for state programs to grow by inflation.

22 **Arguments Against**

23 1) Amendment (?) diverts money that is needed to meet Colorado's rapidly growing
24 water demand and to maintain its aging water supply system. Half of the money shifted
25 to highway projects under this measure would be available under current law to provide
26 loans and grants for water projects. A recent study indicated that current and planned
27 water supply projects will meet only 80 percent of the estimated need by 2030. By
28 diverting over \$100 million in the next four years to transportation projects,
29 Amendment (?) hurts the state's ability to meet long-term water supply needs.

30 2) By prioritizing I-70 and giving the legislature budget authority over the new
31 highway money, Amendment (?) circumvents the statewide transportation planning
32 process. The statewide transportation plan, developed by an independent commission,
33 identifies, prioritizes, and selects transportation projects for funding. When legislators
34 prioritize and select transportation projects, political considerations may enter the
35 decision-making process.

36 3) Amendment (?) limits the flexibility of the legislature to prioritize and pay for all
37 state programs. In recent years, programs such as low-income energy assistance,
38 wildlife conservation, and water infrastructure have benefitted from increased state
39 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**

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

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

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

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