Amendment 58

Colorado Legislative Council Staff

FISCAL IMPACT STATEMENT

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BALLOT TITLE: SEVERANCE TAXES ON THE OIL AND NATURAL GAS INDUSTRY

Fiscal Impact Summary	FY 2008-2009	FY 2009-2010	FY 2010-2011
State Revenue - Cash Funds	$101 million	$321 million	$325 million
State Expenditures			
Cash Funds			
Severance Tax Trust Fund (DNR)	($22 million)	$11 million	$3 million
Local Government Severance Tax Fund (DOLA)	(22 million)	11 million	3 million
Severance Tax Stabilization Trust Fund	145 million	299 million	318 million
FTE Position Change	0.0 FTE	0.0 FTE	0.0 FTE
Local Government Impact: Change in the distribution of severance tax revenue to local governments.			

Summary of Measure

Under current law, a company's oil and gas severance tax liability depends on its gross income, which is taxed at rates varying from 2 to 5 percent. Small producing wells are exempt from the tax and companies are allowed to claim a tax credit equal to 87.5 percent of any property taxes paid or assessed on oil and gas production, except for small producing wells. Revenue from the severance tax is split evenly between the Department of Natural Resources (DNR) and the Department of Local Affairs (DOLA). DNR distributes the money evenly between (1) water projects and (2) programs related to mineral extraction activities, wildlife conservation, low-income energy assistance, renewable energy, and the control of invasive species like zebra mussels and pine bark beetles. DOLA distributes the money to local governments impacted by mining activity through various mechanisms, such as grants and loans.

For tax years beginning January 1, 2009, this measure establishes a flat 5 percent tax rate for oil and gas companies with $300,000 or more of gross income, reduces the small well exemption, and eliminates the tax credit for property taxes. The measure specifies that all of the revenue generated from the oil and gas severance tax is exempt from TABOR revenue restrictions. In addition, the measure stipulates a new allocation scheme for oil and gas severance taxes. DNR and DOLA will evenly split 44 percent of severance tax revenue for existing programs, while 56 percent will go toward other purposes, including college scholarships, wildlife preservation, clean energy programs, transportation projects in energy-impacted areas, drinking water grants, and a reserve fund.

State Revenue

The measure is projected to increase state severance tax revenue by $101 million in budget year 2009 and $321 million in budget year 2010. The repeal of the property tax credit is expected to generate $70 million in 2009 (half-year) and $258 million in 2010. The reduction in the small well exemption is expected to generate about $31 million in 2009 and $62 million in 2010. The imposition of a flat tax rate is expected to yield, at most, about $0.5 million in 2009 and $1 million per year in subsequent years. Table 1 shows the current oil and gas severance tax forecast, the projected revenue under Amendment 58, and the net revenue impact to the state.

Table 1. Revenue Impact of Amendment 58, Millions of Dollars

	FY 2009	**FY 2010**
Current oil and gas severance tax forecast	$315	$213
Projected severance tax forecast with Amendment 58	$416	$534
Net revenue impact	**$101**	**$321**

State Expenditures

In total, state expenditures are expected to increase in tandem with severance tax revenue, growing by an estimated $101 million in 2009 and $321 million in FY 2010. However, in 2009, DNR and DOLA are each projected to spend $22 million less, while the new programs created in the measure will increase state spending by $145 million. In 2010, expenditures by DNR and DOLA will each increase by $11 million and the new programs will spend an additional $299 million. A breakout of the expenditure impact of Amendment 58 is shown in Table 2.

Table 2. Expenditure Impact of Amendment 58, Millions of Dollars

	FY 2009	**FY 2010**
Total Expenditure Impact	**$101**	**$321**
Local Government Severance Tax Fund (DOLA)	**-$22**	**$11**
Severance Tax Trust Fund (DNR)	**-$22**	**$11**
Severance Tax Stabilization Trust Fund	**$145**	**$299**
Perpetual Base Account - Reserve Fund (10%)	**$14**	**$30**
Operational Account (90%)	**$131**	**$269**
College Scholarships	$78	$162
Wildlife Preservation	$20	$40
Clean Energy	$13	$27
Transportation Projects	$13	$27
Drinking Water Grants	$7	$13

Of the revenue distributed to the Severance Tax Stabilization Trust Fund, 10 percent is allocated to the perpetual base account to be held in reserve and 90 percent is allocated to the operational account. Money in the operational account is in turn distributed for the following purposes, as indicated in Table 2:

- 60 percent for college scholarships;
- 15 percent for wildlife preservation;
- 10 percent for clean energy programs;
- 10 percent for transportation projects in energy-impacted areas; and
- 5 percent for small community drinking water and wastewater grants.

In should also be noted that the expenditures identified in Table 2 include a certain amount for administrative expenses. For example, the Colorado Commission on Higher Education is responsible for establishing guidelines and policies to set eligibility criteria for the college scholarship program. These administrative expenses will be deducted from the gross distribution that is made for college scholarships. Similarly, the Colorado Department of Transportation, the Great Outdoors Colorado Board, and the Colorado Department of Public Health and Environment will incur additional expenses to administer the requirements specified in the measure.