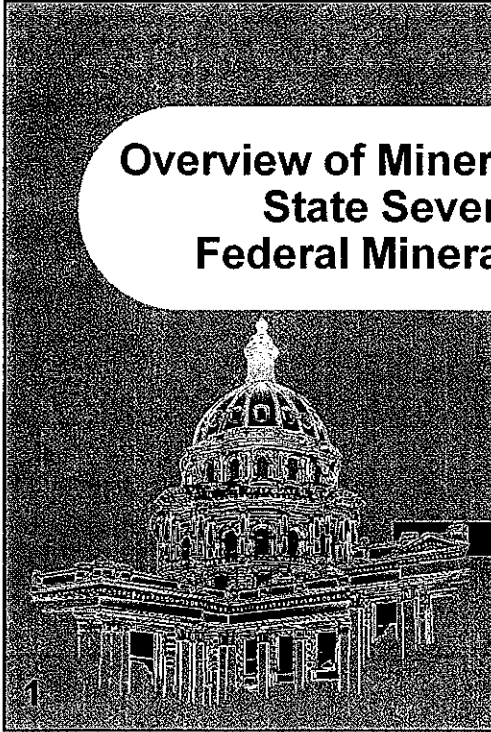


Overview of Mineral Taxes in Colorado State Severance Tax and Federal Mineral Lease Revenue

**House and Senate Finance
Committees**

Marc Carey and Jason Schrock
Colorado Legislative Council Staff
February 25, 2009

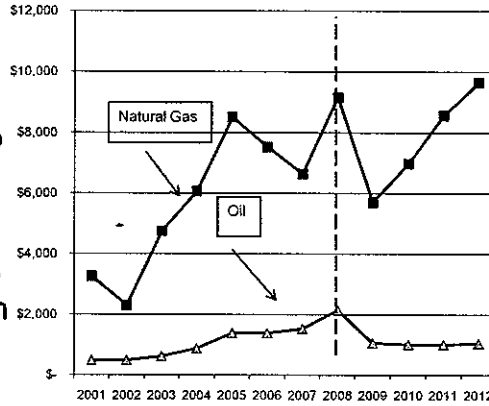


Topics for Discussion

- Current State of Mineral Development in Colorado
- Overview of Taxes Related to Mineral Development
- Uses of Mineral Tax Revenue within Colorado's State Budget

Value of Colorado Natural Gas and Oil Production (millions of dollars)

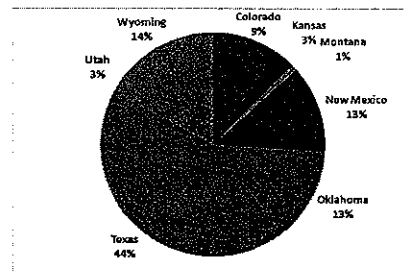
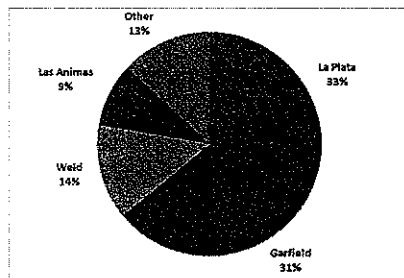
- Value of natural gas and oil production has increased from \$3.7 billion in 2001 to \$11.3 billion in 2008.
- Natural gas accounts for most of the growth in the industry.



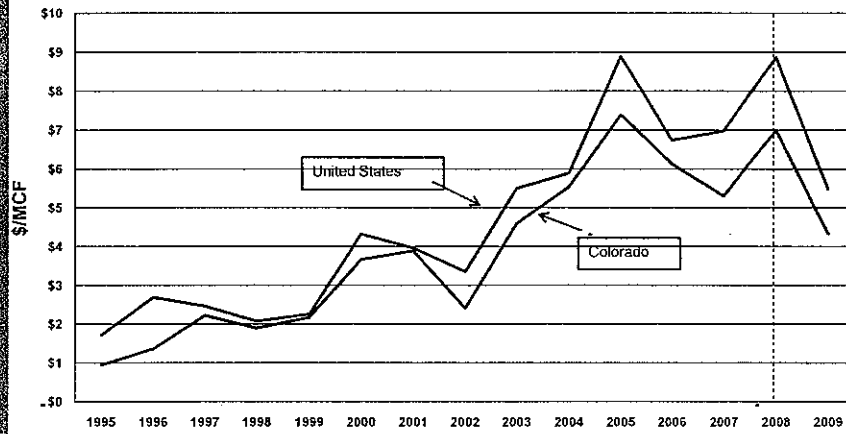
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Source: LCS December 2008 Forecast

Natural Gas Production within Colorado and Regionally, 2007



Natural Gas Prices in the United States and Colorado, 1995-2009



Sources: Energy Information Administration, Action Economics, and December 2008 LCS Forecast.

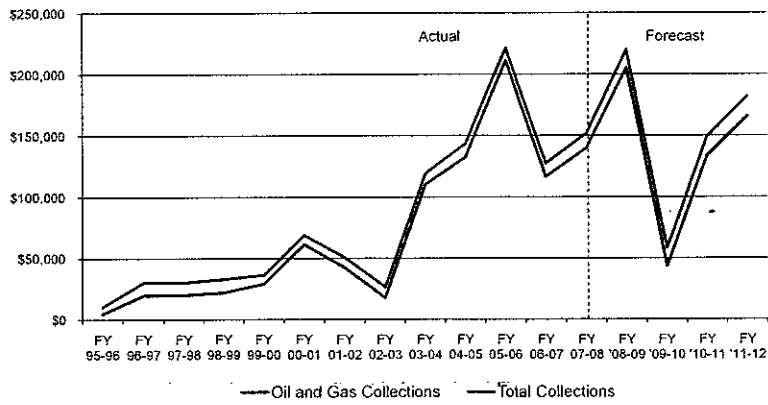
Taxes Related to Mineral Extraction

- **State Severance Tax.** Based on value of production for oil and gas. Coal tax rate is currently about \$0.76 per ton. Tax also applies to molybdenum and metallic minerals. In FY 2007-08, an estimated \$151.7 million was collected, including \$139.9 million from oil and gas and \$8.6 million from coal.
- **Local Property Tax.** Based on prior year's production value. Revenue depends upon local mill levies, assessed values, and revenue limitations.
- **Mineral Leasing on Federal Lands.** Royalties of 12.5% of value are paid to the federal government. Revenue is shared 51% to federal government and 49% to state. In FY 2007-08, \$153.6 million was sent to Colorado. State reallocated its FML revenue last year through SB08-218.

Key Colorado Severance Tax Provisions

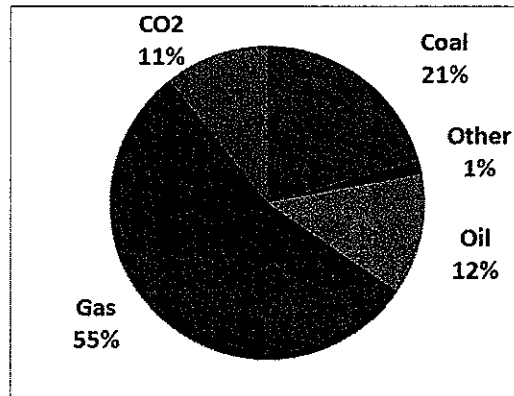
- Sliding 2 – 5 percent rate, depending on operator's gross annual income.
- Allow deduction of 87.5 percent of property taxes on previous year's production.
- Well's producing < 90 Mcf/day are "stripper wells" and are exempt from severance tax.

History and Forecast of Severance Tax Collections (\$000)

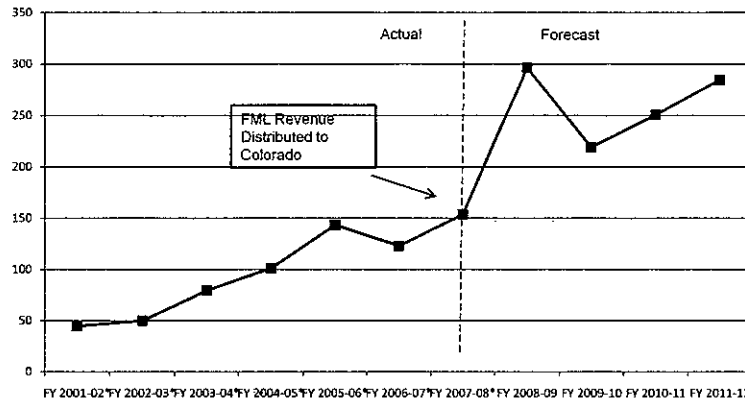


Source: Legislative Council December 2008 Forecast

Mineral Components of Colorado's FML Revenue in FY 2007-08



History and Forecast Colorado's FML Revenue (millions of dollars)

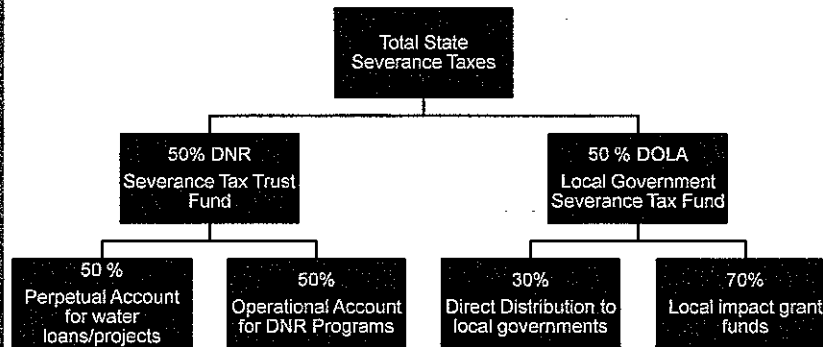


Source: Legislative Council Staff December 2008 Forecast

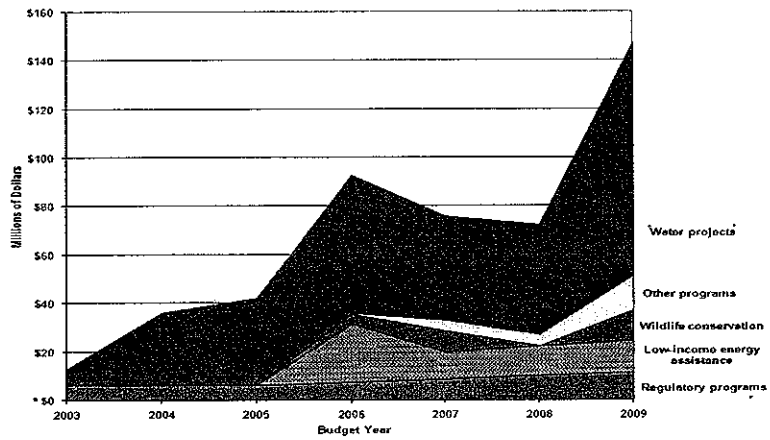
How are Mineral Taxes Allocated Within the State's Budget?

- Half of severance supports the regulation of O&G and mining industries, water projects, low income energy assistance, and wildlife conservation, and half is distributed to local governments.
- Federal mineral leasing revenue supports K-12 education, water project loans, grants and direct distributions to local governments, and capital construction for higher education.

Allocation of State Severance Tax Revenue (FY 2007-08 and beyond)



Severance Tax Revenue Spent on State Programs at DNR



Source: Colorado Department of Natural Resources

Allocation of FML Revenue in FY 2008-09 per SB 08-218

Primary Allocation (amounts capped, except \$ for local govts.)

- 65 M for K-12 Education
- 14 M for CWCB Water Projects
- 86.6 M for Local Gov. Grants and Direct Distributions
- 3.3 M for School Districts

Spillover Allocation

- 47.6 M for Higher Education Capital Construction Projects (Portion used for COP's)

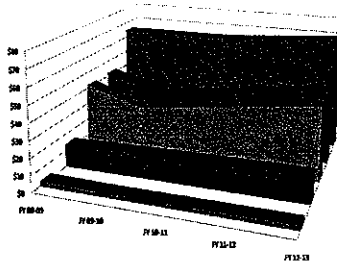
Allocation of FML Revenue from Bonus Payments in FY 2008-09

- 40 M for Permanent Fund (not spent for any purpose except distributed to local governments if FML revenue drops by > 10%)
- 40 M Higher Ed Maintenance and Reserve Fund (interest earnings used for higher ed controlled maintenance projects; principal can be used only during economic downturns)

Projected FML Revenue Flows Over the Next 5 Fiscal Years

Projected Primary FML Allocations

- School Districts
- CO Water Conservation Board
- DOLA Grants
- DOLA Direct Distribution
- Public School Fund



Projected Spillover FML Allocations

- HE M&R Fund
- HE FM: Rev Fund

