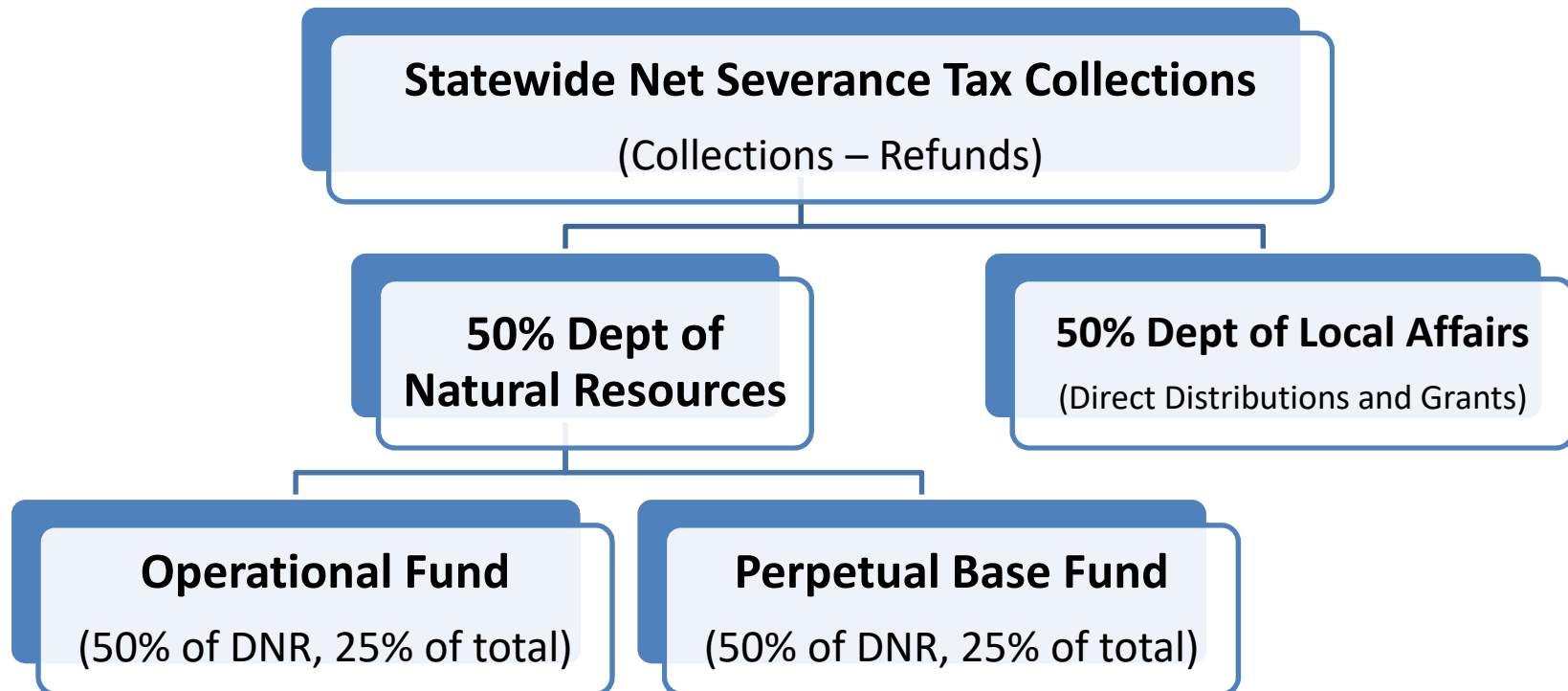


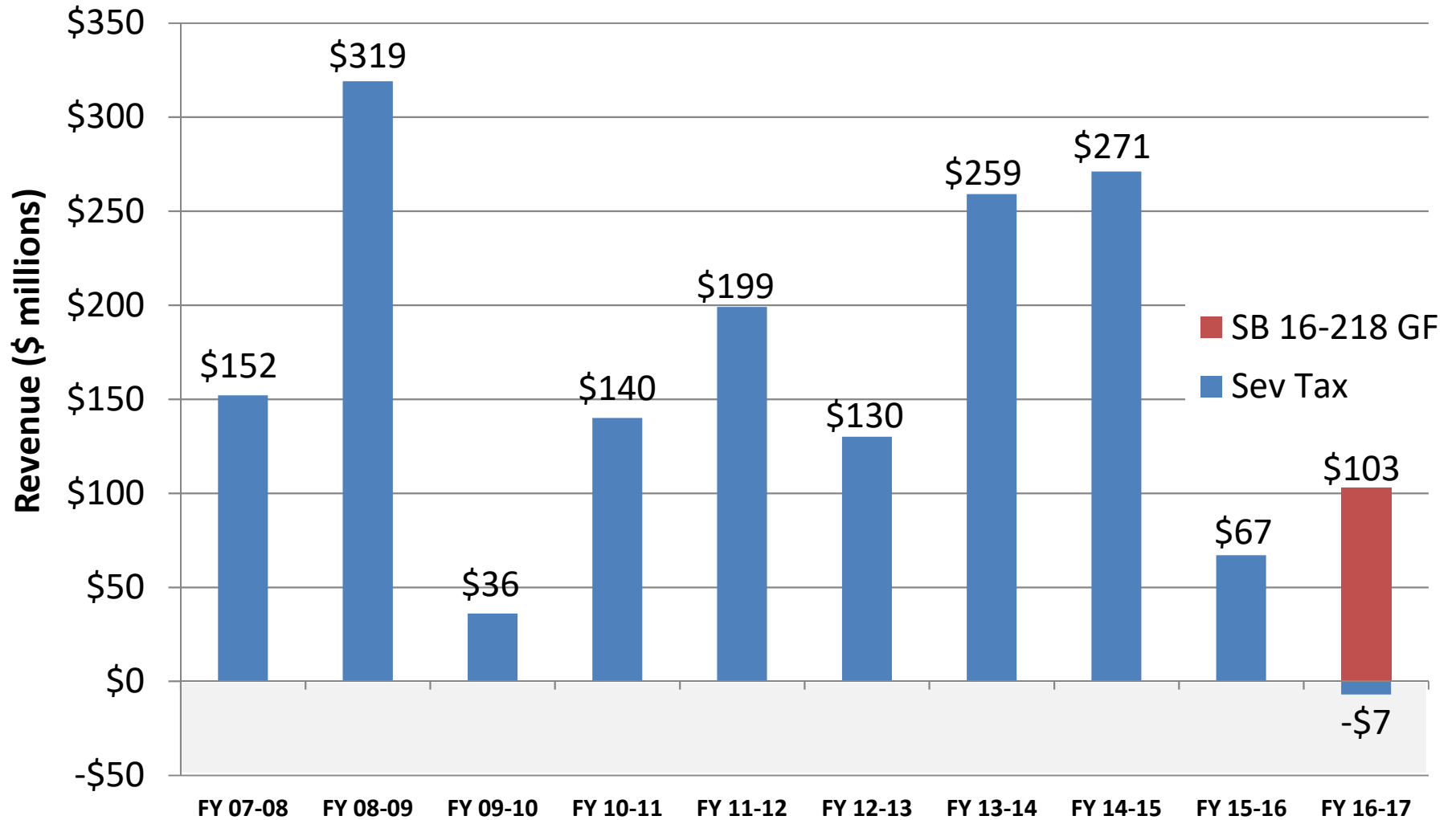
# Severance Tax 101

- Colorado collects severance tax on nonrenewable minerals as they are “severed” from the earth.
  - 95% of severance tax revenue = oil and gas



# Severance Tax Revenue Over Time

## Net Severance Tax Revenue Available for Distribution



# Sources of Revenue Volatility

1. Fluctuations in O&G market conditions
2. Property Tax (Ad Valorem) Credit/Offset
  - Operators can take a credit equal to 87.5% of property taxes against state sev tax liability
3. *BP America v. CO Dept of Revenue*

# Current Year Severance Tax Revenues

	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	YTD Total
STAX Collections	\$9.6M	\$9.1M	\$11.1M	\$10.5M	\$25.1M	\$15.6M	\$81.1M
STAX Refunds	\$6.1M	\$23.1	\$0.4M	\$17.3M	\$0.5M	\$16.2M	\$63.6M
Net Collections	\$3.5M	(\$14.0M)	\$10.7M	(\$6.7M)	\$24.6M	(\$0.6M)	\$17.5

## Reference Points:

March 2017 LCS Severance Tax Forecast for FY 18: \$143 Million

June 2017 LCS Severance Tax Forecast for FY 18: \$147 Million

Sept 2017 LCS Severance Tax Forecast for FY 18: \$150 Million

Dec 2017 LCS Severance Tax Forecast for FY 18: \$55 Million

# The Severance Tax Roller Coaster



# Current Year Severance Tax Revenues

	July to Dec 2017	Jan 2018	Feb 2018	March 2018	April 2018	May 2018	June 2018	YTD Total
STAX Collections	\$81.1M	\$14.6M	\$15.1M	\$16.9M	\$44.4M	\$15.2M	??	\$187M
STAX Refunds	\$63.6M	\$10.0M	\$1.0	\$3.0M	\$2.7M	\$15.2M	??	\$96M
Net Collections	\$17.5	\$4.6M	\$14.1M	\$13.9M	\$41.7M	\$0.0M	??	\$91.7M

## Reference Points:

March 2017 LCS Severance Tax Forecast for FY 18: \$143 Million

June 2017 LCS Severance Tax Forecast for FY 18: \$147 Million

Sept 2017 LCS Severance Tax Forecast for FY 18: \$150 Million

Dec 2017 LCS Severance Tax Forecast for FY 18: \$55 Million

March 2018 LCS Severance Tax Forecast for FY 18: \$70 Million

# What Does this All Mean for the Perpetual Base Fund...

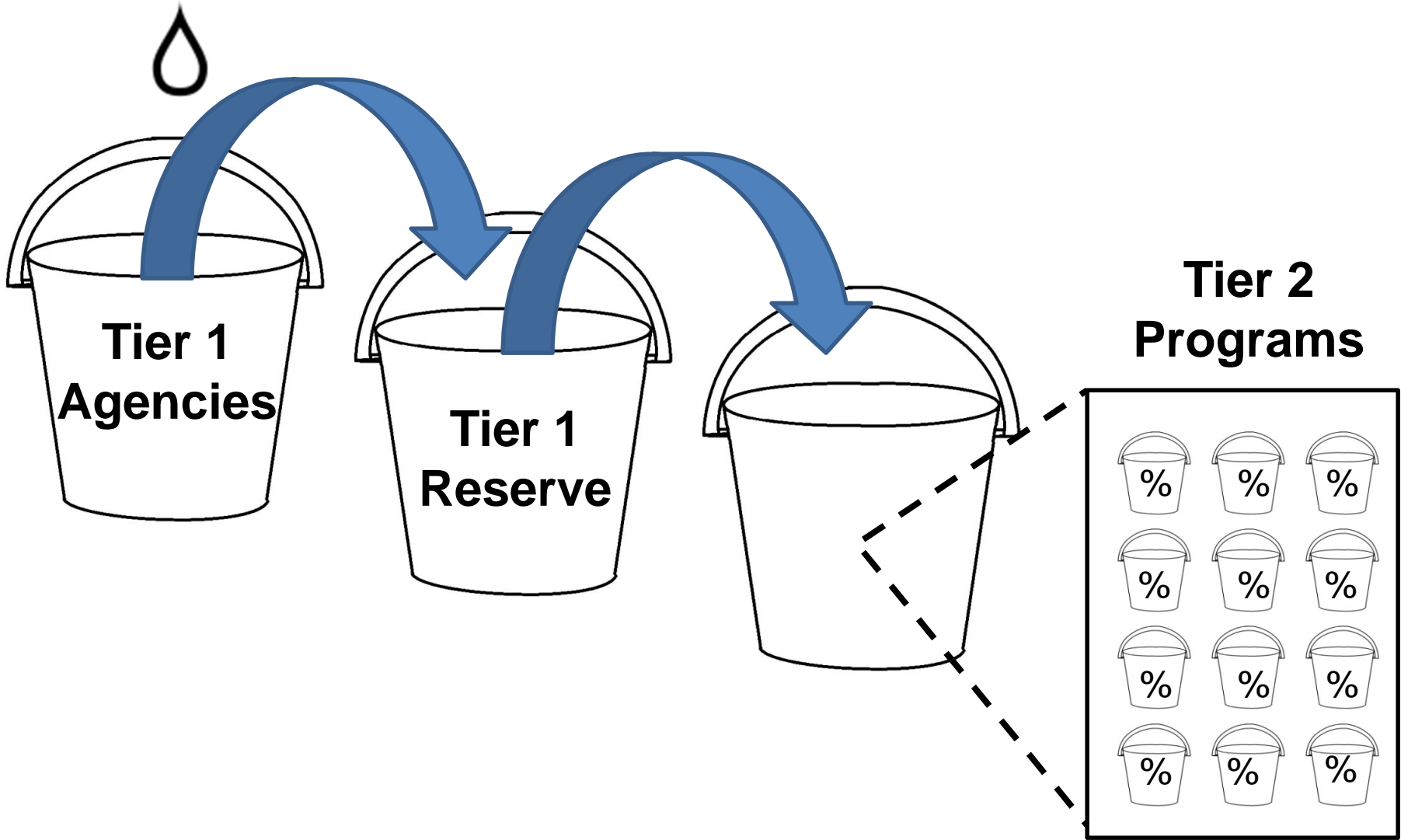
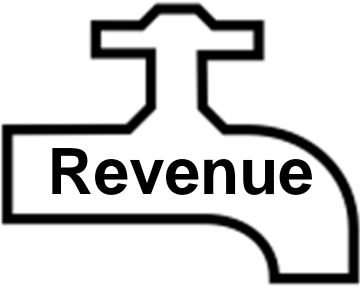
- Over the last ten actual years (FY 2007-08 through FY 2016-17), average annual severance tax revenue has been about \$154 million. By statute, 25% of this amount (\$41 million on average) has been deposited into the Perpetual Base Fund.
- For FY 2017-18, DNR is projecting that the Perpetual Base Fund will earn about \$25 million in revenue. This is less than the \$36 million projection when our FY 2017-18 budget was set (March, 2017) and better than the \$14 million projected in December of 2017.

# Severance Tax Operational Fund

- Provides funding for:
  - “Tier 1” Agencies  
FTE and ongoing program costs in 5 DNR divisions;
  - “Tier 2” Programs  
Grant and project-based programs administered by DNR, AGR, HED (Forestry), and DHS, plus the Gov’s Energy Office, and CO Energy Outreach.



# Statutory Priority of Op Fund Revenue Flow



# House Bill 18-1338

- “Severance Tax Stabilization” Bill
  - Operational Fund “insurance policy” against severance tax revenue volatility/uncertainty.
  - Guarantees stable funding for Tier 1 agencies (and select Tier 2 programs) while transferring risk to the General Fund through FY20.

# H.B. 18-1338 Provisions

## Current Fiscal Year (FY18):

1. Eliminates \$11.4 million S.B. 17-260 transfer from Op Fund to the General Fund.
2. “Claws back” \$3.0 million in transfers made to DNR Tier 2 Programs based on June 2017 Forecast.

Projected Year End Fund Balance = \$700,000

# H.B. 18-1338 Provisions

## Upcoming Fiscal Year (FY19):

1. Transfers \$17 million from the GF to the Op Fund to cover Tier 1 appropriations.
2. Conditionally prohibits Tier 2 programs from receiving severance tax revenue; but
3. Transfers GF to high-priority Tier 2 Programs.

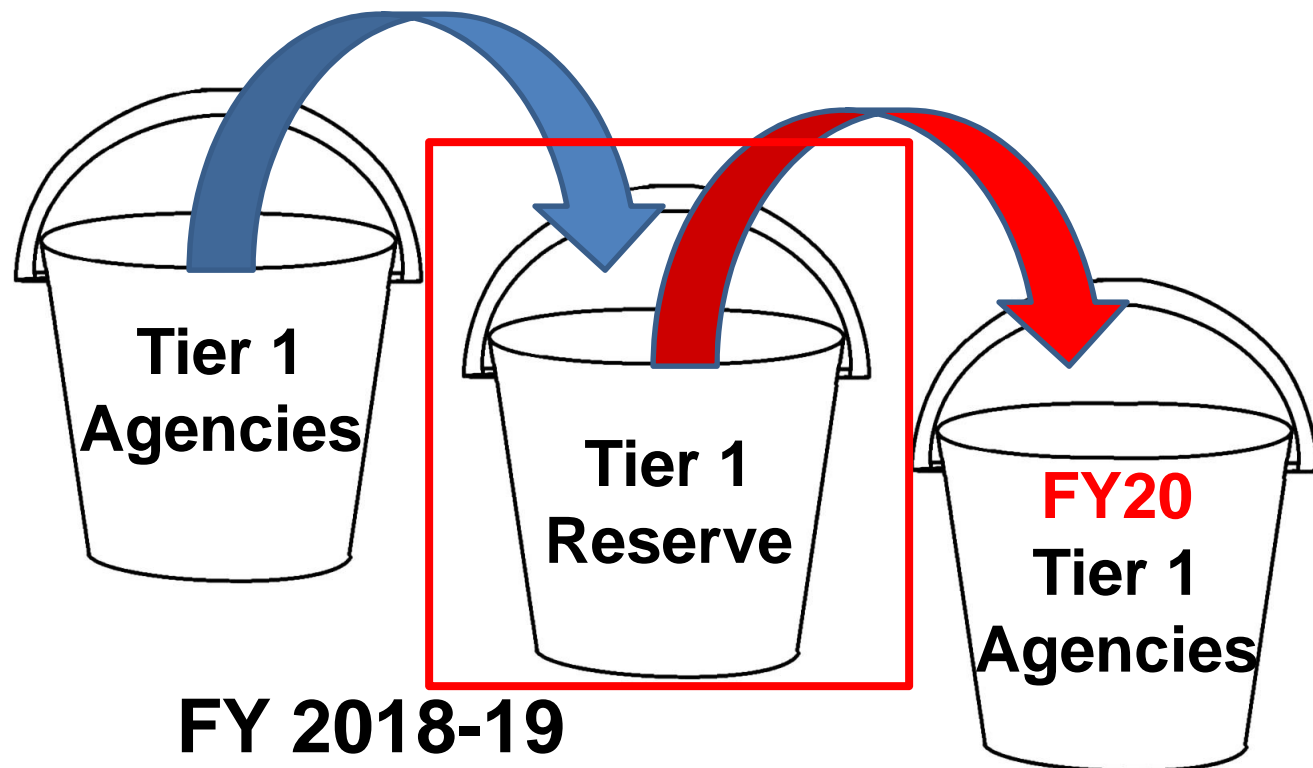
# H.B. 18-1338 Provisions

- H.B. 18-1338 FY19 Tier 2 GF Transfers:
  - Species Conservation Trust Fund: \$3.0 million
  - Aquatic Nuisance Species: \$3.6 million
  - Forestry Grant Programs: \$2.3 million
  - Forfeited Mine Site Reclamation: \$127,000
  - Dept of Ag – Soil Conservation Grants: \$450,000

# H.B. 18-1338 Provisions

Fiscal Year 2019-20:

- “Tops off” the Tier 1 reserve to start the fiscal year.



# H.B. 18-1338 Provisions

## Paying Back the General Fund:

- Diverts the Operational Fund's share of severance tax revenue to the GF from February 2018 through July 2019.
  - Diversions are capped at \$40.9 million.
  - Any revenue received above the cap will flow into the Operational Fund to minimize the need to "top off" the Tier 1 reserve.

# Operational Fund: FY20

- FY 2019-20 Outlook:
  - H.B. 18-1338 will transfer General Fund to fill the Tier 1 Reserve on July 1, 2019 as needed.
  - Projected Revenue\* = \$37.0 million
  - Tier 2 funded at roughly 50% of authorized amounts.

\*All the usual caveats and cautions about revenue forecasts apply, and more!