Colorado Legislative Council Staff

Initiative # 20

INITIAL FISCAL IMPACT STATEMENT

Date: April 18, 2017 **Fiscal Analyst:** Larson Silbaugh (303-866-4720)

LCS TITLE: SEVERANCE TAXES ON OIL AND GAS

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019
State Revenue	**$138,943,717**	**$438,013,673**
Cash Funds	138,943,717	438,013,673
State Expenditures	**$104,354,815**	**$377,334,579**
Cash Funds	104,207,788	377,334,579
General Fund	147,027	

Note: This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

Summary of Measure

Beginning in 2017, the measure increases the oil and gas severance tax by 5 percentage points. Beginning in 2018, the measure eliminates the property tax credit and halves the stripper well exemption. The additional tax revenue from the severance tax increase is exempt from the spending limits in the state constitution. New severance tax revenue is allocated to the following funds:

- 22 percent to the Severance Tax Trust fund within the Department of Natural Resources;
- 22 percent to the Local Government Severance Tax Fund within the Department of Local Affairs; and
- 56 percent to a newly created Severance Tax Stabilization Trust Fund.

State Revenue

This measure will increase oil and gas severance tax revenue by $138.9 million in FY 2017-18, $438.0 million in FY 2018-19, with ongoing increases in future years.

State Revenue. Starting in tax year 2017, the measure increases oil and gas severance tax rates for the gross income of oil and gas producers in Table 1.

Table 1: Tax Rates on Oil and Gas Producers Under Initiative 2017-18 #20		
Gross Income	**Current Law Tax Rate**	**Proposed Tax Rate**
Under $25,000	2%	7%
$25,000 and under $100,000	3%	8%
$100,000 and under $300,000	4%	9%
$300,000 and over	5%	10%

The new tax rates are a 5 percentage point increase to each level of gross income of oil and gas producers.

In tax year 2018, the measure eliminates the property tax credit and halves the stripper well exemption. Under current law, oil and gas producers are allowed to claim a credit against severance taxes for property taxes paid to local governments. The stripper well exemption exempts from taxation the value of production from oil wells that produce fewer than 15 barrels of oil per day and wells that produce fewer than 90,000 cubic feet of natural gas per day. The measure reduces the exemption to 7.5 barrels of oil per day or 45,000 cubic feet of natural gas per day.

The measure changes the statute so the tax rate increase applies to tax years 2000 through 2017. The fiscal impact statement assumes that the measure only applies to severance taxes paid for tax year 2017, which are filed in April of 2018. The revenue impact is consistent with the March 2017 Legislative Council Staff oil and gas severance tax forecast. The price of oil and gas is volatile, introducing significant forecast error into the revenue forecast.

New Revenue Allocation. The measure allocates the new severance tax revenue to various funds and agencies for specific purposes, as shown in Table 2. In FY 2018-19, the measure creates the Severance Tax Stabilization Fund and allocates severance tax revenue into the fund. Money is distributed from this new fund to several state agencies.

Table 2. Allocations of New Severance Tax Revenue Under Initiative #20		
Transfers	**FY 2017-18**	**FY 2018-19**
Department of Natural Resources (22%)	$69,471,859	$56,259,089
Perpetual Base Fund	34,735,929	28,129,544
Operational Fund	34,735,929	28,129,544
Department of Local Affairs (22%)	$69,471,859	$56,259,089
Severance Tax Stabilization Fund (56%)		$325,495,496
Perpetual Base Account		32,549,550
Operational Account		$292,945,946
K-12 Education (CDE)		117,178,379
Scholarships (CCHE)		87,883,784
Medical Care (CDPHE)		58,589,189
Water Quality (CDPHE)		29,294,595
TOTAL	**$138,943,718**	**$438,013,674**

State Expenditures

In FY 2017-18, the measure increases state expenditures by $147,027 and 1.7 FTE from the General Fund and increases cash fund expenditures by $104.3 million. In FY 2018-19, cash fund expenditures will increase by $377.3 million. New expenses are described below.

Department of Revenue. Department of Revenue General Fund expenditures will increase by $147,027 and 1.7 FTE in FY 2017-18 as shown in Table 2. This amount includes personal costs for additional staff to answer taxpayer questions, postage to notify taxpayers of the change in the severance tax structure, and computer programing.

Table 3. Expenditures Under Initiative #20

Cost Components	FY 2017-18	FY 2018-19
Personal Services	$72,116	
FTE	1.7	
Operating Expenses and Capital Outlay Costs	9,384	
Computer Programing (GenTax)	29,000	
Mailing and Postage	6,738	
Centrally Appropriated Costs*	29,789	
TOTAL	**$147,027**	**$0**

** Centrally appropriated costs are not included in the measure's appropriation.*

Department of Natural Resources (DNR). Statutory appropriations in DNR will increase by $34.7 million in FY 2017-18 and $28.1 million in FY 2018-19. The measure changes the distribution into the Severance Tax Perpetual Base Fund starting in FY 2018-19, when the fund will receive 11 percent of oil and gas severance tax revenue. The measure changes the distribution into the Operational Fund starting in FY 2018-19, when the fund will receive 11 percent of oil and gas severance tax revenue.

Department of Local Affairs (DOLA). DOLA's severance tax revenue is credited to the Local Government Severance Tax Fund and distributed to local governments. The measure changes the distribution into the fund starting in FY 2018-19, when the fund will receive 22 percent of oil and gas severance tax revenue. DOLA cash funds and expenditures will increase by $69.5 million in FY 2017-18 and $56.3 million in FY 2018-19.

Department of Education. The measure creates a statutory appropriation for the Colorado Department of Education to expand fill-day kindergarten and increase funding for K-12 education equal to 20.1 percent of oil and gas severance tax revenue starting in FY 2018-19. Cash funds and expenditures will increase by $117.2 million in FY 2018-19.

Colorado Commission of Higher Education. The measure creates a statutory appropriation for the Colorado Commission of Higher Education for a scholarship program to Colorado public colleges and universities equal to 15.1 percent of oil and gas severance tax revenue starting in FY 2018-19. Cash funds and expenditures will increase by $87.9 million starting in FY 2018-19.

Department of Public Health and Environment. The measure creates two statutory appropriations within the Colorado Department of Public Health and Environment starting in FY 2018-19. The measure directs that 10.1 percent of oil and gas severance tax revenue be used to provide medical care for people suffering negative health impacts caused by oil and gas production. Funding and expenditures will increase by $58.6 million starting in FY 2018-19. In addition, the measure directs that 5.0 percent of oil and gas severance tax revenue be used for domestic wastewater and treatment grants. Funding and expenditures will increase by $29.3 million in FY 2018-19.

Local Government Impact

Local governments will receive increased local government impact grants administered by DOLA. In addition, some of the new expenditures in the measure may increase revenue to school districts, county health agencies, and water districts.

Economic Impact

This measure increases severance taxes paid by the oil and gas industry, increasing the cost of oil and gas development in Colorado. The fiscal impact statement does not attempt to estimate a behavioral response to the increased oil and gas severance tax.

To the extent that the tax increase decreases oil and gas development in Colorado, there will be less oil and gas employment, less demand for associated services, reduced rent and royalty income to mineral owners, and reduced profits for oil and gas companies. The tax rate is only one component of industry decisions about where to develop oil and gas; other factors include the cost to extract oil and gas, existing infrastructure that supports oil and gas development, ability to market extracted oil and gas, existing business commitments, and prevailing prices.

The new tax revenue will be spent on state and local government services, including K-12 education, scholarships for higher education, and treatment of medical conditions. The additional spending may increase access to these services and may reduce the amount of money households need to budget for these services. To the extent that households have more money available in their budgets, they can purchase other household goods, increase savings, or increase investments.

Effective Date

If approved by voters, the ballot initiative takes effect upon proclamation of the Governor within 30 days of the official canvas of votes at the 2017 November election.

State and Local Government Contacts

Counties	Education	Higher Education
Local Affairs	Municipalities	Natural Resources
Revenue		

Abstract of Initiative 20: Severance Taxes on Oil and Gas

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of April 2017, identifies the following impacts:

The abstract includes estimates of the fiscal impact of the initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at www.ColoradoBlueBook.com and the abstract will be included in the ballot information booklet that is prepared for the initiative.

State expenditures. The measure increases state spending on local government impact grants, water related programs, clean and renewable energy development, soil conservation, and invasive species control programs by $104.3 million in FY 2017-18. The measure expands the programs that receive oil and gas severance tax revenue in FY 2018-19 to include K-12 education, higher education scholarships, healthcare, and clean water. State spending will increase by $377.3 million in FY 2018-19.

State revenue. Oil and gas severance tax revenue will increase by $138.9 million in FY 2018-19 and $438.0 million in FY 2019-20. The measure includes a distribution of the revenue to various programs across the state.

Local government revenue, expenditures, taxes, or fiscal liabilities. Several of the programs that receive additional revenue under the measure increase grants to local government agencies.

Economic impacts. This measure increases severance taxes paid by the oil and gas industry, which increases the cost of oil and gas development in Colorado by the amount of the tax increase. To the extent the tax increase limits oil and gas development, there will be less oil and gas employment, less demand for associated services, reduced rent and royalty income to mineral owners, and reduced profits for oil and gas companies. The new tax revenue will be spent on state and local government services, including K-12 education, scholarships for higher education, and treatment of medical conditions. The additional spending may increase access to these services and may reduce the amount of money households need to budget for these services. To the extent that households have more money available in their budgets, they can purchase other household goods, increase savings, or increase investments.