Colorado Legislative Council Staff

Initiative # 94

INITIAL FISCAL IMPACT STATEMENT

Date: January 2, 2018 **Fiscal Analyst:** Larson Silbaugh (303-866-4720)

LCS TITLE: SEVERANCE TAXES ON OIL AND GAS

Fiscal Impact Summary	FY 2018-2019	FY 2019-2020
State Revenue	**$148.3 million**	**$307.0 million**
Cash Funds	148.3 million	307.0 million
State Expenditures	**$136.5 million**	**$286.0 million**
General Fund	0.2 million	
FTE	0.9	
Cash Funds	$136.3 million	$286.0 million
Perpetual Base Fund (DNR)	7.3 million	24.1 million
Operational Fund (DNR)	7.3 million	24.1 million
Department of Local Affairs	14.7 million	48.2 million
K-12 Education (CDE)	53.5 million	94.8 million
Medical Care (CDPHE)	53.5 million	94.8 million

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 January 1, 2019, the measure increases oil and gas severance tax rates, eliminates the property tax credit, and halves the stripper well exemption. The measure increases tax rates by 5 percentage points for individuals and entities with income derived from oil and gas production, including oil and gas producers, owners, and recipients of royalty income, regardless of gross income level. The measure also eliminates a tax credit oil and gas severance taxpayers are allowed to claim against their severance tax liability equal to the amount they paid in property taxes to local governments in the prior year. In addition, current law exempts from taxation the value of production from oil and gas wells that produce either fewer than 15 barrels of oil per day or fewer than 90,000 cubic feet of natural gas per day. The measure reduces the threshold for the exemption to 7.5 barrels of oil per day or 45,000 cubic feet of natural gas per day.

Oil and gas severance taxes under the measure are exempt from the spending limits in the state constitution. Starting in 2019, oil and gas severance tax revenue is allocated to the following funds:

- 22 percent to the Severance Tax Trust fund within the Department of Natural Resources (DNR);
- 22 percent to the Local Government Severance Tax Fund within the Department of Local Affairs (DOLA); and
- 56 percent to a newly created Severance Tax Stabilization Trust Fund, which is distributed to the Department of Education (CDE), the Department of Public Health and Environment (CDPHE), and a new perpetual base account.

The revenue into the Severance Tax Stabilization Trust Fund is distributed 90 percent to the Severance Tax Operational Account and 10 percent to the Perpetual Base Account. The CDE receives 50 percent of operational account revenue to expand full-day kindergarten and increase funding for K-12 education. The CDPHE receives 50 percent of operational account revenue to fund medical care for people suffering negative health impacts caused by oil and gas production. Funds in the Perpetual Base Account are not appropriated until the Perpetual Base Account exceeds 125 percent of the previous year's operational account expenditures, at which point they are transferred to the operational account for distribution to CDE and CDPHE.

State Revenue

This measure will increase oil and gas severance tax revenue by $148.3 million in FY 2018-19 and $307.0 million in FY 2019-20, with ongoing increases in future years. The measure also changes the oil and gas severance tax distribution. The measure takes effect January 1, 2019; therefore, the FY 2018-19 impact is for a six month period.

Oil and severance tax revenue. Starting in tax year 2019, the measure increases oil and gas severance tax rates for all oil and gas production as shown in Table 1.

Table 1. Severance Tax Rates on Oil and Gas Producers Under Initiative 2017-18 #94

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%

Table 2 shows the revenue associated with each change in the oil and gas severance tax structure.

Table 2. Change in Revenue Under Initiative 2017-18 #94		
	FY 2018-19	**FY 2019-20**
Current Law Forecast*	**$64.1 million**	**$69.0 million**
New Revenue	**$148.3 million**	**$307.0 million**
Increased Tax Rates	32.2 million	69.3 million
Elimination of Property Tax Credit	103.6 million	210.7 million
Halve Stripper Well Exemption	12.5 million	27.0 million
Total Oil and Gas Severance Tax Revenue	**$212.4 million**	**$376.0 million**

**December 2017 Legislative Council Staff Oil and Gas Severance Tax Forecast.*

The revenue impact in this fiscal impact statement is based on the December 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.

Revenue distributions. The measure changes the distribution of oil and gas revenue to DNR and DOLA, and creates an allocation to the new Severance Tax Stabilization Fund starting January 1, 2019. Table 3 shows the current law distributions of oil and gas severance taxes and the distributions under the measure.

Table 3. Distribution of Oil and Gas Severance Tax Revenue Under Initiative 2017-18 #94		
Distribution	**Current Law**	**Initiative #94**
Department of Natural Resources (DNR)	50%	22%
Department of Local Affairs (DOLA)	50%	22%
Severance Tax Stabilization Fund	-	56%
Total	**100%**	**100%**

Initiative #94

Table 4 shows the current law distributions of oil and gas severance tax revenue, the distributions under the measure, and the net change for FY 2018-19 and FY 2019-20.

Table 4. Distributions Under Initiative 2017-18 #94			
FY 2018-19			
Distributions	**Current Law**	**Initiative #94**	**Net Change**
Department of Natural Resources	$32,051,567	$46,733,279	$14,681,712
Department of Local Affairs	$32,051,567	$46,733,279	$14,681,712
Severance Tax Stabilization Fund	-	$118,957,438	$118,957,438
TOTAL	**$64,103,134**	**$212,423,996**	**$148,320,862**
FY 2019-20			
Distributions	**Current Law**	**Initiative #94**	**Net Change**
Department of Natural Resources	$34,484,803	$82,721,526	$48,236,723
Department of Local Affairs	$34,484,803	$82,721,526	$48,236,723
Severance Tax Stabilization Fund	-	$210,563,884	$210,563,884
TOTAL	**$68,969,606**	**$376,006,936**	**$307,037,330**

State Expenditures

The measure increases state expenditures by up to $136.5 million in FY 2018-19 and up to $286.0 million in FY 2019-20 for multiple agencies. Table 5 summarizes expenditures for each agency under Initiative #94 and more detail is provided below.

Table 5. Expenditures Under Initiative 2017-2018 #94		
Agency	**FY 2018-19**	**FY 2019-20**
Department of Revenue	$116,688	
General Fund Total	**$116,688**	
Department of Natural Resources	14,681,712	48,236,723
Department of Local Affairs	14,681,712	48,236,723
Department of Education	53,530,847	94,753,748
Department of Public Health and Environment	53,530,847	94,753,748
Cash Fund Total	**$136,425,118**	**$285,980,942**
TOTAL	**$136,541,806**	**$285,980,942**

Department of Revenue. Department of Revenue expenditures will increase in FY 2018-19 only as shown in Table 6. This amount includes personal service costs for additional staff to answer taxpayer questions, postage to notify taxpayers of the change in the severance tax structure, and computer programing for GenTax, the state's tax administration software.

Table 6. General Fund Expenditures Under Initiative 2017-2018 #94

Cost Components	**FY 2018-19**	**FY 2019-20**
Personal Services	$42,819	
FTE	0.9	
Operating Expenses and Capital Outlay Costs	5,088	
Computer Programing	43,927	
Mailing and Postage	13,818	
Employee Benefits	11,036	
TOTAL	**$116,688**	**$0**

The measure changes the distribution to DNR and DOLA, and creates the Severance Tax Stabilization Fund. Money is distributed from the fund to CDE, CDPHE, and a newly created Perpetual Base Account.

Department of Natural Resources. Funding and expenditures for DNR will increase by $14.7 million in FY 2018-19 and $48.2 million in FY 2019-20. Revenue to DNR is distributed equally between the Severance Tax Perpetual Base Fund and the Operational Fund within the agency. The disbursement of revenue from these funds is set in current law.

Department of Local Affairs. Funding and expenditures for DOLA will increase by $14.7 million in FY 2018-19 and $48.2 million in FY 2019-20. DOLA's severance tax revenue is credited to the Local Government Severance Tax Fund and distributed to local governments.

Department of Education. Funding and expenditures for CDE will increase by up to $53.5 million in FY 2018-19 and up to $94.8 million in FY 2019-20. This revenue is to expand full-day kindergarten and increase funding for K-12 education. The measure is silent about which cash fund within the department will receive the revenue.

Department of Public Health and Environment. Funding and expenditures within CDPHE will increase by up to $53.5 million starting in FY 2018-19 and up to $94.8 million in FY 2019-20. This revenue is to fund medical care for people suffering negative health impacts caused by oil and gas production. The measure is silent about filing claims, which conditions are caused by oil and gas development, how the revenue is distributed, and authorizing administrative costs for the department.

New perpetual base account. Perpetual Base Account revenue will total $11.9 million in FY 2018-19 and $21.1 million in FY 2019-20; however, this revenue will not be spent until the balance in the account exceeds 125 percent of operational account expenditures. The new

Perpetual Base Account receives 10 percent of the revenue to the Severance Tax Stabilization Fund.

Table 7 shows increased cash fund expenditures under Initiative 2017-2018 #94.

Table 7. Cash Fund Expenditures Under Initiative 2017-2018 #94

Fund	FY 2018-19	FY 2019-20
Department of Natural Resources (22%)	$14,681,712	$48,236,723
Perpetual Base Fund (50% of DNR)	7,340,856	24,118,361
Operational Fund (50% of DNR)	7,340,856	24,118,361
Department of Local Affairs (22%)	$14,681,712	$48,236,723
Severance Tax Stabilization Fund (56%)	$118,957,438	$210,563,884
Operational Account (90% of Stabilization Fund)	$107,061,694	$189,507,496
K-12 Education (CDE) (50% of Operational Account)	53,530,847	94,753,748
Medical Care (CDPHE) (50% of Operational Account)	53,530,847	94,753,748
Perpetual Base Account (10% of Stabilization Fund)*	11,895,744	21,056,388
Total Cash Fund Expenditures	**$136,425,118**	**$285,980,942**
TOTAL	**$148,320,862**	**$307,037,330**

* *Money in the Perpetual Base Account is not spent until the balance in the account exceeds 125 percent of operational account expenditures.*

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 and county health agencies depending on implementing legislation.

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 change from the oil and gas industry in 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 severance tax rate is only one consideration for the industry when deciding where to develop oil and gas; other factors include the cost of extracting oil and gas, the existence of supporting infrastructure, the 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 and the treatment of medical conditions associated with oil and gas development. 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 increase other household purchases, savings, or 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 2018 general election. The new tax rates and structure apply starting January 1, 2019.

State and Local Government Contacts

Counties	Education	Local Affairs
Municipalities	Revenue	Natural Resources
Public Health and Environment		

Initiative #94

Abstract of Initiative 94: SEVERANCE TAXES ON OIL AND GAS

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of January 2, 2018, 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 Revenue. This measure will increase oil and gas severance tax revenue by $148.3 million in FY 2018-19 and $307.0 million in FY 2019-20, with ongoing revenue in future years.

State Expenditures. The measure increases state expenditures by up to $136.5 million in FY 2018-19 and up to $286.0 million in FY 2019-20 for multiple agencies, with ongoing expenditures in future years.

Local government revenue, expenditures, taxes, or fiscal liabilities. Local governments will receive increased local government impact grants administered by the state.

Economic Impacts. This measure increases severance taxes paid by the oil and gas industry, increasing the cost of oil and gas development in Colorado. 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 new tax revenue will be spent on state and local government services, including K-12 education and the treatment of medical conditions associated with oil and gas development. To the extent that households have more money available in their budgets, they can increase other household purchases, savings, or investments.