

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 10-0303
Prime Sponsor(s): Rep. Frangas
 Sen. Romer

Date: February 3, 2010
Bill Status: House Business Affairs and Labor
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TITLE: CONCERNING AN INCREASE IN STATE REVENUES FROM THE OIL AND GAS SEVERANCE TAX TO BE USED TO PROMOTE JOBS IN THE STATE, AND, IN CONNECTION THEREWITH, TEMPORARILY HALVING THE AMOUNT OF THE CREDIT BASED ON PROPERTY TAXES PAID ALLOWED AGAINST THE TAX ON THE SEVERANCE OF OIL AND GAS; REQUIRING THE DEPARTMENT OF EDUCATION TO DISTRIBUTE NINETY PERCENT OF THE ADDITIONAL TAX REVENUE TO PUBLIC SCHOOLS FOR TEACHER RETENTION; AND REQUIRING THE COLORADO ECONOMIC DEVELOPMENT COMMISSION TO USE TEN PERCENT OF THE ADDITIONAL TAX REVENUE TO INCREASE THE AVAILABILITY OF CREDIT TO SMALL BUSINESSES IN COLORADO.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue			
Cash Funds - Severance Tax Revenue	\$33 million	\$74 million	\$41 million
State Expenditures			
General Fund		\$3,923	
Cash Funds			
Teacher Retention Cash Fund			\$59 million
Small Business Credit Cash Fund			\$7 million
FTE Position Change			
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2010-2011: None required.			
Local Government Impact: Revenue increase to local schools.			

Summary of Legislation

Under current law, oil and natural gas severance taxpayers can claim a tax credit of 87.5 percent of the local property taxes they pay on the value of their oil and gas production. This bill temporarily reduces the amount of the credit by half for tax years commencing after January 1, 2011, and before January 1, 2013.

The additional severance tax revenue generated by the reduction in the credit will be allocated:

- 90 percent to a newly-created Teacher Retention Cash Fund; and
- 10 percent to a newly-created Small Business Credit Cash Fund.

The money credited to the Teacher Retention Cash Fund is required to be appropriated to the Department of Education for teacher retention. The money is required to be distributed to school districts and the Charter School Institute based on student enrollment across the state.

The money in the Small Business Credit Cash Fund is required to be appropriated to the Colorado Economic Development Commission to increase the availability of credit to small businesses through the Colorado Credit Reserve Program. This program is administered by the Colorado Housing and Finance Authority.

State Revenue

This bill is estimated to generate an additional \$33 million in FY 2010-11 (half year impact), \$74 million in FY 2011-12, and \$41 million in FY 2012-13 (half year impact). The additional revenue generated by a reduction in the tax credit in 2011 will be split roughly half in FY 2010-11 and half in FY 2011-12, while the additional revenue generated in 2012 will be split roughly half in FY 2011-12 and half in FY 2012-13. This estimate is based on the December 2009 Legislative Council severance tax forecast. It is important to note that severance tax revenue and the value of the tax credit can be volatile from year to year because they are mostly dependent on natural gas prices which historically have fluctuated widely over time. Further, there is currently little information on the actual amount of severance tax credits claimed each year and thus staff has only an estimate of the value of the credit. Thus, the actual amount generated by a reduction in the tax credit could be considerably higher or lower than expected.

The additional revenue will be credited 90 percent to the Teacher Retention Cash Fund and 10 percent to the Small Business Credit Cash Fund. The actual amount of additional severance tax revenue generated by reducing the severance tax credit in 2011 and 2012 will not be able to be known until taxpayers file their severance tax returns in the year following each tax year. Thus, this fiscal note assumes that the additional revenue will be credited to each fund in FY 2012-13 and FY 2013-14 in the amounts shown in Table 1 below.

Table 1. Estimated Amounts Allocated for Teacher Retention and Small Business Credit under HB 10-1174		
	Teacher Retention Cash Fund	Small Business Credit Cash Fund
FY 2012-13	\$59 million	\$7 million
FY 2013-14	\$74 million	\$8 million

State Expenditures

Department of Education. This fiscal note assumes that the Department of Education can distribute the money to school districts and the State Charter School Institute using existing resources. It is assumed that all of the money credited to the Teacher Retention Cash Fund will be appropriated to the department to be distributed to schools in the fiscal year it is received (FY 2012-13 and FY 2013-14).

Governor's Office - Economic Development Commission. Since the money credited to the Small Business Credit Cash Fund will be used by the existing Colorado Credit Reserve Program, the Economic Development Commission and the Colorado Housing Finance Authority will be able to administer the additional funding within existing resources. It is assumed that all of the money credited to the Small Business Credit Cash Fund will be appropriated to the commission to increase credit to small businesses in the fiscal year it is received (FY 2012-13 and FY 2013-14).

Department of Revenue. The department will incur programming expenses of \$3,923 in FY 2011-12 to implement the provisions of this bill. Expenditures are based on an expected 100 hours of programming by an IT Professional III to modify the state's tax system, called GenTax, at a rate of \$39.23 per hour. Also, the bill will require some minor changes to severance taxpayer forms by the department which can be absorbed within existing resources.

Local Government Impact

This bill will provide additional funding to local schools in FY 2012-13 and FY 2013-14 by the amounts shown under the Teacher Retention Fund in Table 1.

State Appropriations

No appropriations are required to implement this bill in FY 2010-11.

Departments Contacted

Governor's Office
Natural Resources

Law
Revenue

Local Affairs