


Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 11-0679
Prime Sponsor(s): Sen. Lundberg
 Rep. Joshi

Date: June 10, 2011
Bill Status: Postponed Indefinitely
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TITLE: CONCERNING THE ALLOCATION OF THE STATE SHARE OF SEVERANCE TAX REVENUES.

Fiscal Impact Summary	FY 2010-11	FY 2011-012	FY 2012-13
State Revenue			
General Fund		\$23.3 million	\$26.4 million
Cash Funds			
Severance Tax Trust Fund		3.4 million	(2.7 million)
Perpetual Base Account		13.4 million	11.8 million
Operational Account		1.7 million	(1.4 million)
Local Government Severance Tax Fund		(50.0 million)	(50.0 million)
Property Tax Relief Cash Fund		11.7 million	13.2 million
State Expenditures			
General Fund	\$13,700		
Cash Funds		See State Expenditures section	
FTE Position Change			
Effective Date: The bill was postponed indefinitely by the Senate State, Veterans and Military Affairs Committee on February 14, 2011.			
Appropriation Summary for FY 2011-2012: See State Appropriations.			
Local Government Impact: See Local Government Impact section.			

Summary of Legislation

The bill changes the methodology for how severance tax revenues are distributed. Under current law, 50 percent of severance tax revenues are credited to the Severance Tax Trust Fund, administered by the Department of Natural Resources (DNR), and 50 percent of the revenues are credited to the Local Government Severance Tax Trust Fund, administered by the Department of Local Affairs (DOLA). The Local Government Severance Tax Fund is used for grants and direct distributions to local communities impacted by energy development activities. Within the Severance Tax Trust Fund, 50 percent of the revenue is allocated to the Perpetual Base Account for use by the Colorado Water Conservation Board to fund water projects, and 50 percent is allocated to the Operational Account to fund DNR's programs and divisions.

This bill changes the severance tax revenue allocation to DOLA and the DNR. Specifically, \$100 million is allocated to the Severance Tax Trust Fund, of which 50 percent is distributed to the Operational Account and 50 percent is distributed to the Perpetual Base Account. Of the remaining severance tax revenues, 50 percent is allocated to the Local Government Severance Tax Fund and 50 percent is allocated to the state share. The state share is distributed as follows: 50 percent to the General Fund, 25 percent to the Perpetual Base Account, and 25 percent to the Property Tax Relief Cash Fund. Once the 25 percent cumulative allocation to the Perpetual Base Account reaches \$60 million, this 25 percent distribution will instead be credited to the Property Tax Relief Cash Fund.

Background

The Operational Account of the Severance Tax Trust Fund funds several programs administered by the DNR that are divided into Tier 1 and Tier 2 programs. Tier 1 programs include the Oil and Gas Conservation Commission; the Geological Survey; the Division of Reclamation, Mining, and Safety; the Water Conservation Board; the Division of Wildlife; and the Division of Parks and Outdoor Recreation. Tier 2 programs include water-related programs, agriculture-related programs, clean and renewable energy development, soil conservation, wildlife conservation, the control of invasive species, and low-income energy assistance.

Current law provides a mechanism for balancing spending from the Operational Account by proportionably reducing Tier 2 program funding when insufficient funds exist. For example, if the funding for Tier 2 programs needs to be reduced by 10 percent to ensure the Operational Account is balanced, each Tier 2 program's funding level is reduced by 10 percent.

State Revenue

The bill reallocates state severance tax revenue among various funds, including the General Fund and the newly-created Property Tax Relief Cash Fund. Table 1 shows the allocation of severance tax revenues under current law and under SB11-121 for FY 2011-12. Estimates are based the December 2010 Legislative Council Staff Forecast, which projects that severance tax revenues will total \$193.2 million.

Table 1. Estimated Allocation of Severance Tax Revenue FY 2011-12 (in millions)			
	Current Law	SB 11-121	Impact
General Fund	\$0	\$23.3	\$23.3
Severance Tax Trust Fund	96.6	100.0	3.4
Perpetual Base Account	48.3	61.7	13.4
Operational Account	48.3	50.0	1.7
Local Government Severance Tax Trust Fund	96.6	46.6	(50.0)
Property Tax Relief Cash Fund	0	11.65	11.65

Table 2 shows the allocation of severance tax revenues for FY 2012-13 using the December 2010 Legislative Council Staff Forecast estimate of \$205.4 million.

Table 2. Estimated Allocation of Severance Tax Revenue FY 2012-13 (in millions)			
	Current Law	SB 11-121	Impact
General Fund	\$0	\$26.4	\$26.4
Severance Tax Trust Fund	102.7	100.0	(2.7)
Perpetual Base Account	51.4	63.2	11.8
Operational Account	51.4	50.0	(1.4)
Local Government Severance Tax Trust Fund	102.7	52.7	(50.0)
Property Tax Relief Cash Fund	0	13.2	13.2

State Expenditures

Department of Natural Resources and the Department of Local Affairs. The bill does not increase the workload or expenditures for either agency, but based on the large number of existing statutory commitments for the Operational Account, the DNR has identified what may be a long term deficit in the account under the current distribution. Approximately \$55 million in expenditures have been authorized from the account for FY 2012-13 and beyond, which may not be sustainable based on the average amount of revenue deposited into the Operational Account (roughly \$45 million average over the last 6 years). By capping the total revenue to the Operational Account at \$50 million, the bill removes the possibility that future years will build the balance in the account to support the existing expenditures.

Department of Revenue. Programming work is needed on the department's tax system to implement the changes in severance tax distribution. This will require 100 hours of programming, including 50 hours at \$74 per hour to be completed by the Office of Information Technology in the Governor's Office and 50 hours at \$200 per hour to be completed by a contractor. The total cost is \$13,700 and would be paid from the General Fund. Changes are required in FY 2010-11.

Local Government Impact

The bill will reduce revenues distributed to the Local Government Severance Tax Trust Fund by \$50 million per year beginning in FY 2011-12 and in so doing, will reduce the amount of funding available for grants and direct distributions to local communities impacted by energy development activities. Local governments also receive water project funds from the Perpetual Base Account and may be impacted by an increase in funding to the account. Additionally, SB09-165 triggers a transfer of up to \$10 million from the Perpetual Base Account to the Small Communities Water and Wastewater Grant Fund when severance tax revenues credited to the Perpetual Base Account reach \$50 million. This grant fund will provide funding to local governments for drinking water and water treatment system projects.

Appropriation

The Department of Revenue requires an appropriation of \$13,700 from the General Fund for FY 2010-11. Of this amount, the Office of Information Technology requires \$3,700 in reappropriated funds.

Departments Contacted

Natural Resources

Local Affairs

Revenue